

RESOLUTION NO. 2008-133

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LODI
RELATING TO ELECTRIC SYSTEM REVENUE CERTIFICATES OF
PARTICIPATION, 2008 SERIES A; APPROVING THE FORMS OF
AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN
INSTALLMENT PURCHASE CONTRACT, A CERTIFICATE PURCHASE
CONTRACT, A PRELIMINARY OFFICIAL STATEMENT AND A
CONTINUING DISCLOSURE AGREEMENT; AND AUTHORIZING
CERTAIN OTHER MATTERS RELATING THERETO

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WHEREAS, the City of Lodi, a municipal corporation duly organized and existing under and by virtue of the Constitution and laws of the State of California (the "City") owns and operates a municipal electric system (the "Electric System"), to provide the City and its inhabitants with electricity; and

WHEREAS, the City and the Lodi Public Improvement Corporation, a non-profit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation") propose to execute and enter into an Installment Purchase Contract (the "Installment Purchase Contract"), whereby the Corporation will acquire from the City certain existing improvements to the Electric System, as more fully described in Exhibit 1 to the Installment Purchase Contract (the "Existing Facilities"), and whereby the Corporation will sell such Existing Facilities back to the City as provided in the Installment Purchase Contract; and

WHEREAS, pursuant to the Installment Purchase Contract, the City will be obligated to make installment payments to the Corporation for the purchase of the Existing Facilities; and

WHEREAS, the City will apply certain of the moneys received in connection with the sales of the Existing Facilities pursuant to the Installment Purchase Contract, to the prepayment of its obligations under that certain installment purchase contract, dated as of January 1, 2002, between the City and the Corporation and the termination of the interest rate swap transaction (the "Transaction") with Citigroup Financial Products Inc. (CFPI) relating to such obligations through the execution and delivery of a Termination Agreement (the "Termination Agreement")

WHEREAS, the City desires to approve the refinancing of the Existing Facilities as provided in the Installment Purchase Contract through the execution and delivery of Electric System Revenue Certificates of Participation, 2008 Series A (the "Certificates") pursuant to a Trust Agreement (the "Trust Agreement"), proposed to be executed by the Corporation and The Bank of New York Trust Company, NA (the "Trustee"); and

WHEREAS, the City proposes to execute and deliver a Certificate Purchase Contract (the "Certificate Purchase Contract") with Stone & Youngberg LLC (the "Underwriter"), pursuant to which the Underwriter will purchase the Certificates for reoffering to the public; and

WHEREAS, the offer of the Certificates to the public is to be made pursuant to a Preliminary Official Statement (the "Preliminary Official Statement"); and

WHEREAS, all acts, conditions and things required by the laws of the State of California to exist, to have happened and to have been performed precedent to and in connection with the consummation of the transactions authorized hereby do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the City is now duly authorized and empowered, pursuant to each and every requirement of law, to consummate such transactions for the purpose, in the manner and upon the terms herein provided;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF LODI, AS FOLLOWS:

Section 1. The City Council hereby specifically finds and determines that the actions authorized hereby constitute and are with respect to the public affairs of the City and that the statements, findings and determinations of the City set forth above and in the preambles of the documents approved herein are true and correct and that the consummation of the transactions contemplated therein shall result in significant public benefits to the City in that the City expects to improve the efficient operation of the City's Electric System through the refinancing of the Existing Facilities as provided in the Installment Purchase Contract.

Section 2. The Installment Purchase Contract, in the form presented at this meeting and on file with the City Clerk, and the performance by the City of its obligations thereunder, are hereby approved, and the City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Corporation the Installment Purchase Contract in substantially said form, with such changes therein as the officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, that the schedule of the installment payments to be contained in the Installment Purchase Contract and to be attached as exhibits thereto shall be determined by the City Manager or the Director of the Electric Utility of the City upon the sale of the Certificates, but shall not exceed the principal amount of the Certificates and shall provide for installment payments not later than 35 years from the date of delivery of the Certificates.

Section 3. The Termination Agreement, in substantially the form presented at this meeting and on file with the City Clerk, and the performance by the City of its obligations thereunder, are hereby approved, and the City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to CFPI the Termination Agreement in substantially said form, with such changes therein as the officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided, that the Termination Amount thereunder shall not exceed ten million dollars.

Section 4. The Certificate Purchase Contract, proposed to be executed and entered into by and between the City and the Underwriter, in the form presented at this meeting and on file with the City Clerk, and the performance by the City of its obligations

thereunder, are hereby approved, and the City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver to the Underwriter the Purchase Contract in substantially said form, with such changes therein as the officer executing such document may approve, such approval to be conclusively evidenced by the execution and delivery thereof; provided that the Underwriter's discount in connection with the sale of the Certificates shall not exceed 1.5% of the principal amount of the Certificates.

Section 5. The Preliminary Official Statement, in the form presented at this meeting and on file with the City Clerk, and its use by the Underwriter in connection with the offering of the Certificates, is hereby approved. The City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized and directed to cause the Preliminary Official Statement to be distributed to the Underwriter and potential purchasers of the Certificates in substantially the form presented to this meeting with such changes therein as the officer causing the Preliminary Official Statement to be distributed may approve, such approval to be conclusively evidenced by causing the Preliminary Official Statement to be distributed.

Section 6. The preparation and delivery of a final Official Statement relating to the Certificates (the "Official Statement"), and its use by the Underwriter, in connection with the offering and sale of the Certificates are hereby approved. The Official Statement shall be substantially in the form of the Preliminary Official Statement with such changes therein as the officer executing the Official Statement may approve, such approval to be conclusively evidenced by such officer's execution and delivery thereof. The City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Official Statement and any amendment or supplement thereto contemplated by the Certificate Purchase Contract, and thereupon to cause the final Official Statement and any such amendment or supplement to be delivered to the Underwriter with such execution being conclusive evidence of the approval thereof.

The City Manager and the Director of the Electric Utility, acting singly, are hereby authorized to determine that the Preliminary Official Statement and the Official Statement is deemed final for purposes of Rule 15c2-12 of the Securities and Exchange Commission.

Section 7. The Continuing **Disclosure** Agreement, **proposed to** be executed and entered by the City and the Trustee, in the form presented at this meeting and on file with the City Clerk, and the **performance** by the City of its obligations thereunder, are hereby approved, and the City Manager and the Director of the Electric Utility, each acting singly, are hereby authorized and directed for and in the name and on behalf of the City to execute and deliver the Continuing Disclosure Agreement in substantially said form, with such changes therein as the officer executing such document may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 8. The City Clerk is hereby authorized and directed to attest the signature of the City Manager or the Director of the Electric Utility and to affix and attest the seal of the City, as may be required or appropriate, in connection with the execution and delivery of the Certificates and the documents approved by this Resolution.

Section 9. The officers of the City are hereby authorized and directed, jointly and severally, to do any and all things (including the negotiating and obtaining of a municipal bond insurance policy and/or reserve fund surety bond with respect to the Certificates if the City Manager or Director of the Electric Utility receive evidence that such insurance policy or surety bond will result in savings to the City) and to execute and deliver any and all documents which they may deem necessary or desirable in order to consummate the transactions authorized hereby and to consummate the sale, execution and delivery of the Certificates and otherwise to carry out, give effect to and comply with the terms and intent of this Resolution, the Installment Purchase Contract, the Termination Agreement, the Certificate Purchase Contract, the Preliminary Official Statement, the Official Statement and the Certificates; and all such actions heretofore taken by such officers are hereby ratified, confirmed and approved.

Section 10. This Resolution shall take effect immediately upon its passage.

Dated: July 2, 2008

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I hereby certify that Resolution No. 2008-133 was passed and adopted by the City Council of the City of Lodi in a regular meeting held July 2, 2008, by the following vote:

AYES: COUNCIL MEMBERS – Hansen, Johnson, Katzakian, and
Mayor Mounce

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – Hitchcock

ABSTAIN: COUNCIL MEMBERS – None



RANDI JOHL
City Clerk

2008-133

INSTALLMENT PURCHASE CONTRACT

by and between

CITY OF LODI

and

LODI PUBLIC IMPROVEMENT CORPORATION

Dated as **of** July 1,2008

Electric System Revenue Certificates of Participation
2008 Series **A**

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INSTALLMENT PURCHASE CONTRACT

This INSTALLMENT PURCHASE CONTRACT, made and entered into as of July 1, 2008, by and between the CITY OF LODI, a municipal corporation duly organized and existing under and by virtue of the laws of the State of California (the "City"), and the LODI PUBLIC IMPROVEMENT CORPORATION, a nonprofit, public benefit corporation duly organized and existing under and by virtue of the laws of the State of California (the "Corporation"),

WITNESSETH:

WHEREAS, the City has established the Electric System (capitalized terms used herein and not otherwise defined shall have the meanings given such terms pursuant to Section 1.1 hereof) to furnish its inhabitants with light and power; and

WHEREAS, the City proposes to refinance the City's obligations to make installment payments under the 2002 Contract in connection with the Existing Facilities; and

WHEREAS, the Corporation is authorized to enter into contracts for the acquisition, construction, installation, equipping and sale of facilities such as the Existing Facilities; and

WHEREAS, the Corporation has agreed to assist the City by acquiring the Existing Facilities as herein provided and selling the Existing Facilities to the City on the terms and conditions set forth herein; and

WHEREAS, the City and the Corporation have duly authorized the execution of this Contract;

WHEREAS, the Corporation will assign certain of its rights hereunder, including its right to receive Installment Payments, to The Bank of New York Trust Company, N.A., as Trustee under the Trust Agreement, dated as of July 1, 2008, between the Corporation and The Bank of New York Trust Company, N.A.; and

WHEREAS, pursuant to the Trust Agreement, the Trustee is to execute and deliver Electric System Revenue Certificates of Participation 2008 **Series A**, evidencing the proportionate interests of the Owners thereof in the Installment Payments; and

WHEREAS, a portion of the proceeds of the Certificates are to be applied to the refinancing of the City's obligations to make installment payments under the 2002 Contract in connection with the Existing Facilities by refunding the 2002 Certificates **as** provided in the Trust Agreement.

WHEREAS, all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and delivery of this Installment Purchase Agreement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this Installment Purchase Agreement;

NOW, THEREFORE, IN CONSIDERATION OF THESE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS

Section 1.01. Definitions. Unless the context otherwise requires, capitalized terms used in this Contract shall for all purposes hereof and of any amendment hereof or supplement hereto and of any report or other document mentioned herein or therein have the meanings given such terms in the Trust Agreement, such definitions to be equally applicable to both the singular and plural forms of any of the defined terms.

ARTICLE II

THE EXISTING FACILITIES

Section 2.01. Purchase of Existing Facilities by Corporation. In consideration of the application of the proceeds of the Certificates as provided in Section 2.15 of the Trust Agreement, the City hereby sells, assigns, and transfers to the Corporation, and the Corporation hereby purchases from the City, all of the City's right, title and interest in the Existing Facilities. In consideration of the agreement of the City to make the Installment Payments as provided in Section 3.01 hereof, the Corporation hereby sells, assigns, and transfers to the City, and the City hereby purchases from the Corporation, all of the Corporation's right, title and interest in the Existing Facilities.

Section 2.02. Sale of the Certificates. In order to provide funds for the refunding of the 2002 Certificates, the Corporation, as soon as practicable after the execution of this Contract, will cause the sale and delivery of the Certificates to the initial purchasers thereof and pay the proceeds thereof to Trustee who shall deposit ~~the~~ proceeds of such sale received by the Trustee ~~as~~ provided in Section 2.15 of the Trust Agreement.

Section 2.03. Investment of Moneys in Funds Created Under Trust Agreement. Any moneys held as a part of the Debt Service Fund or any other fund created pursuant to the Trust Agreement shall, at the Written Request of the City (or, if the City is in default under this Contract, at the Written Request of the Corporation), be invested or reinvested by Trustee as provided in Article III of the Trust Agreement. The City approves and agrees with the investment provisions of the Trust Agreement. The City acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Corporation or the City the right to receive brokerage confirmations ~~of~~ security transactions ~~as~~ they occur, the City specifically waives receipt of such confirmations to the extent permitted by law.

ARTICLE III

INSTALLMENT PAYMENTS AND PREPAYMENTS

Section 3.01. Installment Payments. The City shall, subject to any rights of prepayment provided in Section 3.02 hereof and the exercise of any remedies under Section 8.01 hereof, pay the Corporation the Installment Payments at the times and in the amounts hereinafter set forth as the purchase price for the Existing Facilities and for making amounts in the Improvement Fund available to pay Costs of the 2008 Project. The Installment Payments consist of the Principal Installments and the Interest Installments. The Interest Installments constitute interest on the unpaid balance of the Principal Installments.

The Principal Installments for the Installment Payments shall be in the amounts set forth in Schedule A hereto and shall be payable on the dates set forth in Section 4.01(b)(ii) hereof. The Interest Installment for each Principal Installment for any period shall be an amount equal to the interest accruing on the unpaid amount of such Principal Installment **for** such period at the interest rate per annum set forth in Schedule A hereto with respect to such Principal Installment. The Interest Installment for the Installment Payment for any period shall be an amount equal to the Interest Installments for all unpaid Principal Installments for such period. The Interest Installments for the Installment Payments shall be payable on the dates set forth in Section 4.01(b)(ii) hereof.

The obligation of *the* City to pay the Installment Payments is, subject to Section 10.01 hereof, absolute and unconditional, and until such time as the Installment Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to Article IX hereof), the City will not discontinue or suspend any Installment Payments required to be paid by it under this Section when due, whether or not the Electric System or any part thereof (including the Existing Facilities) is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such Installment Payments shall not be subject to reduction whether by offset, abatement or otherwise and shall not be conditional upon the performance or nonperformance by any party to any agreement or for any other cause whatsoever.

Section 3.02. Prepayments. The City shall have the right at any time and from time to time from any available funds to prepay all or any part of the Principal Installments, and the Corporation shall accept such prepayments when the same are tendered by the City. **All** prepayments of Principal Installments made by the City pursuant to this Section shall be deposited upon receipt with the Trustee in the Prepayment Account in the Debt Service Fund or such other fund as shall be specified by the City and applied to the prepayment of Outstanding Certificates evidencing such prepaid Principal Installments in the manner and subject to the terms and conditions set forth in the Trust Agreement.

The City shall determine which Principal Installments are to be prepaid, for Principal Installments to be prepaid in part, the amount of such Principal Installments which is to be prepaid, and, subject to the provisions of this Section, the date on which each Certificate evidencing such prepaid Principal Installments is to be repaid. The prepayment price for the prepayment of each Principal Installment to be prepaid in whole or in part shall be the amount

necessary so that such Principal Installment (or the portion thereof to be prepaid) shall be considered paid pursuant to Section 9.01 hereof. Before making any prepayment pursuant to this Section, the City shall give written notice to the Corporation and the Trustee specifying the date on which the funds for the prepayment will be paid to the Trustee, which date shall be not less than fifty (50) days from the date such notice is given or such lesser time as shall be acceptable to the Trustee; provided, that notwithstanding any such prepayment, the City shall not be relieved of its obligations hereunder, including specifically its obligations under this Article, until all Installment Payments shall have been fully paid (or provision for payment thereof shall have been made pursuant to Article IX hereof).

ARTICLE IV

ELECTRIC SYSTEM REVENUES; FUNDS

Section 4.01. Pledge Electric Revenue Fund. (a) Subject *to* the application thereof on the terms and conditions and for the purposes herein provided, all Net Revenues of the Electric System and all moneys on deposit in the Electric Revenue Fund are hereby irrevocably pledged to the payment of the Installment Payments which pledge shall be on a parity with any pledge of Net Revenues or of moneys in the Electric Revenue Fund securing Parity Obligations as to which the provisions of Section 6.01 hereof have been satisfied. This pledge shall constitute a first pledge of and charge and lien upon the Net Revenues of the Electric System and moneys in the Electric Revenue Fund for the payment of amounts due with respect to the Installment Payments and all Parity Obligations in accordance with the terms hereof and thereof.

The general fund of the City is not liable for, and neither the faith and credit nor the taxing power of the City is pledged to, the payment of the Installment Payments.

(b) In order to carry out and effectuate the obligation of the City contained herein to pay the Installment Payments, the City agrees and covenants that all Revenues received by it shall be deposited when and as received in the Electric Revenue Fund which fund has heretofore been established by the City and which fund the City agrees and covenants to maintain separate and apart from other moneys of the City so long as any Installment Payment remains Outstanding hereunder. All money on deposit in the Electric Revenue Fund shall be applied, transferred and used only as provided below and in the following order of priority with any deficiency in any required deposit to be rectified before making any deposit of a lower priority:

(i) To the payment of the Maintenance and Operation Costs then due and payable and the establishment of a reasonable contingency reserve for Maintenance and Operation Costs.

(ii) On or before the fifth Business Day before each Principal Payment Date and each Interest Payment Date, a sum equal to the Installment Payment becoming due and payable on such date shall be transferred to the Debt Service Fund. On or before each date (other than a Principal Payment Date or an Interest Payment Date) on which an Installment Payment becomes due and payable hereunder (whether by prepayment pursuant to Section 3.02, acceleration pursuant to Section 8.01 or otherwise), a sum equal to the Installment Payment becoming due and payable on such date shall be transferred to the Debt Service Fund.

Notwithstanding the foregoing provisions of this subsection (ii), no such deposits to the Debt Service Fund need be made by the City from the Electric Revenue Fund to the extent the Trustee then holds in the Debt Service Fund sufficient available funds to pay the Installment Payment to be paid with such deposit. On or before each due date therefor under the instruments and proceedings pursuant to which Parity Obligations have been issued or incurred, the sum or sums required to be paid or deposited in a debt service or other payment fund or account with respect to principal, premium, if any, and interest on Parity Obligations (or in the case of Parity Payment Agreements, the scheduled Net Payments due); provided that all transfers and payments to be made pursuant to this subsection (ii) shall be made without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(iii) On each Principal Payment Date and Interest Payment Date, that sum, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement. To the extent required by the instruments and proceedings pursuant to which Parity Obligations have been issued or incurred, to any applicable debt service reserve fund or account for any Parity Obligations for which a separate reserve has been established in accordance with Section 6.01(e), the sum or sums, if any, equal to the amount required to be deposited therein in accordance with the terms of such Parity Obligations (other than interest on draws on debt service reserve fund sureties or financial guarantees for such debt service reserves); provided that all transfers and payments to be made pursuant to this subsection (iii) shall be made without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(iv) To the extent required by the instruments and proceedings pursuant to which Parity Obligations have been issued or incurred, to the payment when due of any interest then due on amounts drawn under any debt service reserve fund surety or guarantee for any Parity Obligations for which a separate debt service reserve has been established pursuant to Section 6.01(e); provided that all transfers and payments to be made pursuant to this subsection (iv) shall be made without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(v) To the payment when due of any Termination Payment payable by the City upon the termination of a transaction under a Parity Payment Agreement before its scheduled termination date.

(vi) To the payment of any Subordinate Obligations in accordance with the instruments and proceedings pursuant to which authorizing such Subordinate Obligations have been.

(vii) To the making of City Transfers

(viii) To any other lawful purpose of the City in connection with the Electric System.

Notwithstanding anything in this Section 4.01 to the contrary no moneys in the Electric Revenue Fund shall be applied in any Fiscal Year pursuant to Section 4.01(b)(vi), Section 4.01(b)(vii) or, Section 4.01(b)(viii) **unless** amounts remaining on deposit in the Electric

Revenue Fund shall be sufficient to make the remaining transfers required to be made in such Fiscal Year pursuant to Section 4.01(b)(i) through Section 4.01(b)(v); provided, however that moneys with Electric Revenue Fund may be applied in any Fiscal Year pursuant *to* Section 4.01(b)(viii) to fund the expansion of the facilities on business of the Electric System if the City provides the Trustee with a Certificate of the City to the effect that the City estimates that the amounts to be available with Electric Revenue Fund, taking into account such application; shall be sufficient to make when due and transfer to be made in such Fiscal Year pursuant to Section 4.01(b)(i) through Section 4.01(b)(v).

Section 4.02. Escrow Fund. The moneys deposited in the Escrow Fund, including the proceeds of the sale of the Certificates, shall be applied as provided in the Trust Agreement.

Section 4.03. Investments. Any moneys held in the Electric Revenue Fund shall be invested in Permitted Investments which will, as nearly as practicable, mature on or before the dates when such moneys are anticipated to be needed for disbursement hereunder. All investment earnings from moneys or deposits in the Electric Revenue Fund shall be credited in such fund and applied only to the purposes permitted for such fund.

The City may commingle any of the moneys *in* Electric Revenue Fund with the moneys held in other funds or accounts (except for moneys held in any rebate fund, which shall be held separately) for investment purposes only; provided however, that all moneys in the Electric Revenue Fund shall be accounted for separately notwithstanding such commingling.

ARTICLE V

CERTIFICATE INSURANCE POLICY

Section 5.01. Indemnification of Certificate Insurer. (a) The City hereby agrees to pay or reimburse the Certificate Insurer, to the extent permitted by law, any and all charges, fees, costs and expenses which the Certificate Insurer may reasonably pay *or* incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, in connection with (i) any accounts established to facilitate payments under the Certificate Insurance Policy, (ii) the administration, enforcement, defense or preservation of any rights in respect of this Contract, including defending, monitoring or participating in any litigation or proceeding (including any bankruptcy proceeding in respect of the City or any affiliate thereof) relating to this Contract or the transaction contemplated by this Contract, (iii) the foreclosure against, sale or other disposition of any collateral securing any obligations under this Contract, or the pursuit of any remedies under this Contract, to the extent such costs and expenses are not recovered from such foreclosure, sale or other disposition, or (iv) any amendment, waiver or other action with respect to, or related to, this Contract whether or not executed or completed; costs and expenses shall include a reasonable allocation of compensation and overhead attributable to time of employees of the Certificate Insurer spent in connection with the actions described in clauses (ii) - (iv) above. In addition, the Certificate Insurer reserves the right to charge a reasonable fee as a condition to executing any amendment, waiver *or* consent proposed in respect of this Contract or the Trust Agreement. The City will pay interest on the amounts owed in this paragraph from the date of any payment due or paid, at the per annum rate of interest publicly announced from time to time by JP Morgan Chase Bank, National

Association at its principal office in New York, New York as its prime lending rate (any change in such prime rate of interest to be effective on the date such change is announced by JPMorgan Chase Bank, National Association) plus three percent (3%) per annum (the "Reimbursement Rate"). The Reimbursement Rate shall be calculated on the basis of the actual number of days elapsed over a 360-day year. In the event JPMorgan Chase Bank ceases to announce its prime rate publicly, the prime rate shall be the publicly announced prime rate or base lending rate of such national bank, as the Certificate Insurer shall specify.

(b) In addition to any and all rights of reimbursement, subrogation and any other rights pursuant hereto or under law or in equity, the City agrees to pay or reimburse the Certificate Insurer to the extent permitted by law, any and all charges, fees, costs, claims, losses, liabilities (including penalties), judgments, demands, damages, and expenses which the Certificate Insurer or its officers, directors, shareholders, employees, agents and each Person, if any, who controls the Certificate Insurer within the meaning of either Section 15 of the Securities Act of 1933, as amended, or Section 20 of the Securities Exchange Act of 1934, as amended, may reasonably pay or incur, including, but not limited to, fees and expenses of attorneys, accountants, consultants and auditors and reasonable costs of investigations, of any nature in connection with, in respect of or relating to the transactions contemplated by this Contract or the Trust Agreement by reason of:

(i) any omission or action (other than of or by the Certificate Insurer) in connection with the offering, issuance, sale, remarketing or delivery of the Certificates;

(ii) the negligence, bad faith, willful misconduct, misfeasance, malfeasance or theft committed by any director, officer, employee or agent of the City in connection with any transaction arising from or relating to this Contract;

(iii) the violation by the City of any law, rule or regulation, or any judgment, **order** or decree applicable to it;

(iv) the breach by the City of any representation, warranty or covenant under this Contract or the occurrence, in respect of the City under this Contract of any "event of default" or any event which, with the giving of notice or lapse of time or both, would constitute **any** "event of default"; or

(v) any untrue statement or alleged untrue statement of a material fact contained in any official statement relating to the Certificates, if any, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such claims arise out of or are based upon any untrue statement or omission in information included in an official statement, if any, and furnished by the Certificate Insurer in writing expressly for use therein.

Section 5.02. Certificate Insurer as Third-Party Beneficiary. To the extent that this Contract confers upon or gives or grants to the Certificate Insurer any right, remedy or claim under or by reason of this Contract, the Certificate Insurer is hereby explicitly recognized as

being a third-party beneficiary hereunder and may enforce any such right remedy or claim conferred, given or granted hereunder.

Section 5.03. Rights of Certificate Insurer. So long as the Certificate Insurance Policy is in full force and effect, the provisions of this Section shall apply:

(a) With respect to the outstanding Certificates, any reorganization or liquidation plan with respect to the City must be acceptable to the Certificate Insurer. In the event of any reorganization or liquidation, the Certificate Insurer shall have the right to vote on behalf of all Owners who hold Certificates guaranteed by the Certificate Insurer, absent a default by the Certificate Insurer under the Certificate Insurance Policy;

(b) The City will permit the Certificate Insurer to discuss the affairs, finances and accounts of the City or any information the Certificate Insurer may reasonably request regarding the security for the Certificates with appropriate officers **of** the City, and will use best efforts to enable the Certificate Insurer to have access to the facilities, books and records of the City on any business day upon reasonable prior notice; and

(c) The Certificate Insurer shall have the right to receive such additional information as it may reasonably request.

ARTICLE VI

PARITY OBLIGATIONS AND SUBORDINATE OBLIGATIONS

Section 6.01. Conditions for the Execution of Parity Obligations. The City may at any time execute and deliver any Parity Obligation, the payment of which is payable from and secured by a lien and charge on the Net Revenues and amounts in the Electric Revenue Fund on a parity with payment of the Installment Payments and the lien and charge on Net Revenues and amounts in the Electric Revenue Fund securing the Installment Payments provided:

(a) With respect to a Parity Obligation other than a Parity Payment Agreement or a Credit Agreement, either -

(i) during any twelve (12) consecutive calendar months out of the immediately preceding eighteen (18) calendar month period, the Adjusted Annual Net Revenues were at least equal to one hundred twenty percent (120%) of the ~~Maximum~~ Annual Debt Service for all Outstanding Installment Payments and all Outstanding Parity Obligations plus the Parity Obligation proposed to be executed; or

(ii) as evidenced by **a** Certificate of the City or an Engineer's Report on file with the City, the projected Adjusted Annual Net Revenues during each of the succeeding five **(5)** complete Fiscal Years beginning with the first Fiscal Year following issuance of such Parity Obligation in which interest is not capitalized in whole from the proceeds of Parity Obligations, is at least equal to one hundred twenty percent (120%) of the Maximum Annual Debt Service for all Outstanding Installment Payments and all Outstanding Parity Obligations plus the Parity Obligation proposed to be executed;

(b) If the Parity Obligation proposed to be executed is not a Parity Payment Agreement, the proceeds of such Parity Obligation proposed to be executed shall be used solely to finance or refinance (including reimbursement to *the* City of amounts advanced for such costs) one or more additions, betterments, improvements to, or other capital asset of, the Electric System as designated by the City and to pay any incidental costs and expenses related thereto (including the costs of issuance, execution or delivery of such proposed Parity Obligation);

(c) With respect to any Parity Obligation proposed to be executed which is a Parity Payment Agreement or a Credit Agreement, there shall have been delivered to the City evidence that the incurrence of such Parity Payment Agreement or Credit Agreement will not in and of itself cause a downgrade of the rating issued by the Rating Agencies then rating the Certificates or any Parity Obligation then outstanding;

(d) There shall have been delivered to the City an Opinion of Counsel substantially to the effect that (1) subject to standard exceptions and qualifications, the Parity Obligation is a valid and binding special obligation of the City, and (2) such Parity Obligation has been duly and validly authorized, executed and delivered in accordance herewith; and

(e) If required by the terms of such Parity Obligation, a separate reserve has been established for such Parity Obligation and that provision has been made to fund such reserve.

Notwithstanding the foregoing provisions, neither clause (a) nor clause (b) above shall limit the ability of the City to execute any Parity Obligations at any time to *refund* any Outstanding Installment Payments or Outstanding Parity Obligations, in each case which results in a net present value savings to the City, inclusive of all costs of such refunding.

Section 6.02. Subordinate Obligations. The City may incur Subordinate Obligations without meeting any of the tests set forth in Section 6.01.

ARTICLE VII

COVENANTS OF THE CITY

Section 7.01. Compliance with Contract. The City will punctually pay the Installment Payments in strict conformity with the terms hereof, and will faithfully observe and perform all the agreements, conditions, covenants and terms contained herein required to be observed and *performed* by it, and will not terminate this Contract or fail to make any payment required by this Contract for any cause including, without limiting the generality of the foregoing, any acts or circumstances that may constitute failure of consideration, destruction of or damage to all or a portion of the Electric System, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State or any political subdivision of either or any failure of the Corporation to observe or perform any agreement, condition, covenant or term contained in this Contract required to be observed and performed by it, whether express or implied, or any duty, liability or obligation arising out of or connected with this Contract or the insolvency, or deemed insolvency, or bankruptcy or liquidation of the Corporation or any force majeure, including acts of God, tempest, storm, earthquake, war, rebellion, riot, civil disorder,

acts of public enemies, blockade or embargo, strikes, industrial disputes, lockouts, lack of transportation facilities, fire, explosion, or acts or regulations of governmental authorities.

Section 7.02. Distribution of Net Revenues for Debt Service. The City hereby covenants that it will distribute Net Revenues available for Outstanding Installment Payments and debt service on all Outstanding Parity Obligations on a pro rata basis without regard to whether each such Parity Obligation has a funded debt service reserve or a surety bond or other similar funding instrument.

Section 7.03. Tax Covenants. (a) The City hereby covenants it shall not *take* any action, or fail to take any action, if any such action or failure to take action would adversely affect the Tax-exempt status of the Interest Installments of the Installment Payments under Section 103 of the Code. Without limiting the generality of the foregoing, the City shall comply with the requirements of the Tax Certificate, which is incorporated herein as if fully set forth herein.

(b) In the event that at any time the City is of the opinion that, in order to comply with its obligations under subsection (a) of this Section, it is necessary or helpful to restrict or limit the yield on the investment of any moneys in any of the funds or accounts held by the Trustee pursuant to the Trust Agreement, the City shall so instruct the Trustee in writing, and cause the Trustee to take such action as may be necessary in accordance with such instructions.

(c) Notwithstanding any provisions of this Section, if the City shall provide to the Trustee an Opinion of Counsel to the effect that any specified action required under this Section or the Tax Certificate is no longer required or that some further or different action is required to maintain the exclusion from federal income tax of Interest Installments of the Installment Payments under Section 103 of the Code, the City and the Trustee may conclusively rely on such opinion in complying with the requirements of this Section and of the Tax Certificate, and the covenants hereunder shall be deemed to be modified to that extent.

(d) The covenants in this Section shall survive payment in full or discharge of the Certificates and the Installment Payments.

Section 7.04. Against Encumbrances. The City will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished, or alleged to have been furnished, to or for the City in, upon, about or relating to the Electric System and will keep the Electric System free of any and all liens against any portion of the Electric System. In the event any such lien attaches to or is filed against any portion of the Electric System, the City will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the City desires to contest any such lien it may do so if contesting such lien will not materially impair operation of the Electric System. If any such lien shall be reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the City will forthwith pay or cause to be paid and discharged such judgment. The City will, to the maximum extent permitted by law, indemnify and hold the Corporation harmless from, and

defend it against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against any portion of the Electric System.

Section 7.05. Sale or Other Disposition of Property. The City will not sell, transfer or otherwise dispose of any of the works, plant, properties, facilities or other part or rights of the Electric System or any real or personal property comprising a part of the Electric System if such sale, transfer or disposition would cause the City to be unable to satisfy the requirements of Section 7.13 hereof.

Section 7.06. Eminent Domain and Insurance Proceeds. If all or any part of the Electric System shall be taken by eminent domain proceedings, or if the City receives any insurance proceeds resulting from a casualty loss to the Electric System, the Net Proceeds thereof, at the option of the City, shall be applied either to the proportional prepayment of Outstanding Installment Payments hereunder and Outstanding Parity Obligations or shall be used to substitute other components for the condemned or destroyed components of the Electric System.

Section 7.07. Maintenance and Operation of the Electric System; Budgets. The City will maintain and preserve the Electric System in good repair and working order at all times and will operate the Electric System in an efficient and economical manner and will pay all Maintenance and Operation Costs as they become due and payable. On or before July 1 of each Fiscal Year, the City Council of the City shall adopt a budget for the Electric System for such Fiscal Year setting forth the estimated Maintenance and Operation Costs for such Fiscal Year and all Installment Payments required to be made hereunder and all payments coming due in such Fiscal Year with respect to Parity Obligations and Subordinate Obligations. The City will file with the Corporation, not later than October 1 of each year, a cover letter, signed by an officer of the City stating that all Installment Payments required by this Contract have been included in the Annual Budget for the then current Fiscal Year. The Annual Budget may be amended at any time during any Fiscal Year and such amended budget shall be filed by the City with the Corporation.

Section 7.08. Compliance with Contracts for Use of the Electric System. The City will comply with, keep, observe and perform all agreements, conditions, covenants and terms, express or implied, required to be performed by it contained in all contracts for the use of the Electric System and all other contracts affecting or involving the Electric System to the extent that the City is a party thereto.

Section 7.09. Insurance. The City will procure and maintain such insurance relating to the Electric System which it shall deem advisable or necessary to protect its interests and the interests of the Corporation, which insurance shall afford protection in such amounts and against such risks as are usually covered in connection with public electric utility systems similar to the Electric System; provided, that any such insurance may be maintained under a self-insurance program so long as such self-insurance is maintained in the amounts and manner as is, in the opinion of an accredited actuary, actuarially sound. All policies of insurance required to be maintained hereunder shall provide that the Corporation shall be given thirty (30) days' written notice of any intended cancellation thereof or reduction of coverage provided thereby.

Section 7.10. Accounting Records: Financial Statements and Other Reports

(a) The City will keep appropriate accounting records in which complete and correct entries shall be made of all transactions relating to the Electric System, which records shall be available for inspection by the Corporation and the Certificate Insurer at reasonable hours and under reasonable conditions.

(b) The City will prepare and file with the Corporation and the Certificate Insurer annually within one hundred eighty (180) days after the close of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2008):

(i) financial statements of the City for such Fiscal Year prepared in accordance with Generally Accepted Accounting Principles, together with an Accountant's Report thereon; and

(ii) a detailed report as to all insurance policies maintained and self-insurance programs maintained by the City with respect to the Electric System as of the close of such Fiscal Year, including the names of the insurers which have issued the policies and the amounts thereof and the property or risks covered thereby.

Section 7.11. Protection of Security and Rights of the Corporation. The City will preserve and protect the security of the Installment Payments under this Contract and the rights of the Corporation to the Installment Payments under this Contract and will warrant and defend such rights against all claims and demands of all persons.

Section 7.12. Payment of Taxes and Compliance with Governmental Regulations. *The* City will pay and discharge all taxes, assessments and other governmental charges which may hereafter be lawfully imposed upon the Electric System or any part thereof when the same shall become due. The City will duly observe and conform with all valid regulations and requirements of any governmental authority relative to the operation of the Electric System or any part thereof, but the City shall not be required to comply with any regulations or requirements so long **as** the validity or application thereof shall be contested in good faith and contesting such validity or application will not materially impair the operations or financial condition of the Electric System.

Section 7.13. Amount of Rates and Charges. The City will at all times **fix**, prescribe and collect rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year which will be at least sufficient to yield (a) Adjusted Annual Revenues for such Fiscal Year at least equal to the sum of the following for such Fiscal Year: (i) Adjusted Maintenance and Operation Costs; (ii) Adjusted Annual Debt Service with respect to the Installment Payments and Parity Obligations, and (iii) all other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from the Electric Revenue Fund, including all amounts owed to any issuer of a surety bond credited to a debt service reserve for Parity Obligations then in effect; (b) Adjusted Annual Net Revenues for such Fiscal Year equal to at least one hundred twenty percent (120%) of Adjusted Annual Debt Service with respect to the Installment Payments and Parity Obligations for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such

classifications thereof as it deems necessary, but shall not reduce the rates and charges then in effect unless the Adjusted Annual Revenues and the Adjusted Annual Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of this Section.

Section 7.14. Collection of Rates and Charges. The City will have in effect at all times rules and regulations requiring each consumer or customer located on any premises connected with the Electric System to pay the rates and charges applicable to the Electric Service provided to such premises and providing for the billing thereof and for a due date and a delinquency date for each bill. The City will not permit any part of the Electric System or any facility thereof to be used or taken advantage of free of charge by any corporation, firm or person, or by any public agency (including the United States of America, the State of California and any city, county, district, political subdivision, public corporation or agency of any thereof). Nothing herein shall prevent the City, in its sole and exclusive discretion, from permitting other parties from selling electricity to retail customers within the service area of the Electric System; provided, however, that permitting such sales shall not relieve the City of its obligations hereunder.

Section 7.15. Further Assurances. The City will adopt, deliver, execute and make any and all further assurances, instruments and resolutions as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of this Contract and for the better assuring and confirming unto the Corporation of the rights and benefits provided to it in this Contract.

Section 7.16. Continuing Disclosure. The City hereby covenants and agrees that it will comply with and carry out all of its obligations under the Continuing Disclosure Agreement. Notwithstanding any other provision of this Contract, failure of the City to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default hereunder and the Corporation shall have no right to accelerate amounts due hereunder as a result thereof; provided, however, that any Owner may **take** such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Trustee, as the case may be, to comply with its obligations in this Section and the Continuing Disclosure Agreement.

Section 7.17. City Obligations under Trust Agreement. The City agrees to comply with all of the requirements of the Trust Agreement applicable to the City and to take all actions, provide all documents, subject to Section 10.01 pay all amounts payable by the City thereunder, and to otherwise satisfy and comply with all provisions of the Trust Agreement applicable to the City.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

Section 8.01. Events of Default and Acceleration of Principal Installments. If one or more of the following Events of Default shall happen, that is to say:

(a) if default shall be made in the due and punctual payment of any Installment Payment or of any Parity Obligation when and as the same shall become due and payable;

(b) if default shall be made by the City in the performance of any of the agreements or covenants contained herein required to be performed by it, other than as set forth in (a) above, and such default shall have continued for a period of thirty (30) days after the City shall have been given notice in writing of such default by the Corporation;

(c) if default shall be made by the City in the performance of any of the agreements or covenants contained in any Parity Obligation required to be performed by it, other than as set forth in (a) above, and such default shall have continued after any notice and grace period provided by such Parity Obligation; or

(d) if the City shall file a petition or answer seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if a court of competent jurisdiction shall approve a petition filed with or without the consent of the City seeking arrangement or reorganization under the federal bankruptcy laws or any other applicable law of the United States of America or any state therein, or if under the provisions of any other law for the relief or aid of debtors any court of competent jurisdiction shall assume custody or control of the City or of the whole or any substantial part of its property;

during the continuance of such Event of Default specified in clause (d) above, the entire amount of the unpaid Principal Installments and those Interest Installments coming due to and including the date of such Event of Default shall become immediately due and payable, and during the continuance of any other Event of Default may, by notice in writing to the City, declare the entire amount of the unpaid Principal Installments and those Interest Installments coming due to and including the date of such declaration to be due and payable immediately, and upon any such declaration the same shall become immediately due and payable, in each case anything contained herein to the contrary notwithstanding. This Section is subject to the condition, however, that if at any time after the entire amount of the unpaid Principal Installments and Interest Installments coming due to and including the date of such declaration shall have been so declared due and payable and before any judgment or decree for the payment of the money due shall have been obtained or entered, the City shall deposit in the Debt Service Fund a sum sufficient to pay the unpaid amount of the Principal Installments and Interest Installment due otherwise then as a result of such declaration and in the applicable debt service fund(s) the unpaid principal amount of any payments due under any Parity Obligation referred to in clause (a) above due and payable prior to such declaration and the accrued interest thereon, with interest on such overdue installments at the rate or rates applicable to such unpaid Principal Installment if paid in accordance with their terms and on the Parity Obligations in accordance with their terms, and the City shall have paid the reasonable expenses of the Corporation, the Trustee and any fiduciaries for Parity Obligations resulting from such declaration, and any and all other defaults known to the Corporation (other than in the payment of the entire amount of the unpaid Principal Installments and Interest Installments due and payable solely by reason of such declaration) shall have been made good or cured to the satisfaction of the Corporation or provision deemed by the Corporation to be adequate shall have been made therefor, then and in every such case the Corporation, by written notice to the City, may rescind and annul such declaration and its consequences; but no such rescission and annulment shall extend to or shall affect any subsequent default or shall impair or exhaust any right or power consequent thereon.

Section 8.02. Application of Net Revenues upon Acceleration. All Net Revenues upon the date of the declaration of acceleration by the Corporation as provided in Section 8.01 above and all Net Revenues thereafter received shall be applied in the following order:

First, to the payment of the fees, costs and expenses of the Corporation and the Trustee, if any, in carrying out the provisions of this Article, including reasonable compensation to their agents, accountants and counsel and including any indemnification expenses;

Second, to the payment of the Interest Installments and interest then due and payable on the entire principal amount of the unpaid Parity Obligations, and the unpaid Principal Installments, the principal amount of the Parity Obligations which has become due and payable, whether on the original due date or upon acceleration (other than Parity Payment Agreements), and the Net Payments due under Parity Payment Agreements, with interest on the overdue Principal Installment at the rate or rates applicable to the Installment Payments and the principal and Net Payments of the unpaid Parity Obligations at the rate or rates of interest then applicable to such Parity Obligations, and, if the amount available shall not be sufficient to pay in full all the amounts due with respect to the Installment Payments, the Parity Obligations, and the Net Payments due under Parity Payment Agreements, together with such Interest Installments and interest on Parity Obligations (including Net Payments), then to the payment thereof ratably, according to the principal, Net Payments and interest due, without any discrimination or preference.

Third, to Termination Payments required under any Parity Payment Agreement on a parity with the payments under paragraph Second above, to the extent and in the manner provided by the terms of such Parity Payment Agreement.

Section 8.03. Other Remedies. The Corporation and the Certificate Insurer shall also have the right:

(a) by mandamus or other action or proceeding or suit at law or in equity to enforce its rights against the City or any officer or employee thereof, and to compel the City or any such officer or employee to perform and carry out its or his or her duties under the law and the agreements and covenants required to be performed by it or him or her contained in this Contract;

(b) by suit in equity to enjoin any acts or things which are unlawful or violate the **rights** of the Corporation; **or**

(c) by suit in equity upon the happening of **an** Event of Default to require the City and its officers and employees to account as the trustee of an express trust.

Section 8.04. Non-Waiver. Nothing in this Article or in any other provision hereof shall affect or impair the obligation of the City, which is absolute and unconditional, to pay the Installment Payments from the Net Revenues and amounts in the Electric Revenue Fund available for such payment in accordance herewith at the respective due dates or upon acceleration or prepayment, or shall affect or impair the right of the Corporation, which is also

absolute and unconditional, to institute suit to enforce such payment by virtue of the contract embodied in this Contract.

A waiver of any default or breach of duty or contract by the Corporation shall not affect any subsequent default or breach of duty or contract or impair any rights or remedies on any such subsequent default or breach of duty or contract. No delay or omission by the Corporation to exercise any right or remedy accruing upon any default or breach of duty or contract shall impair any such right or remedy or shall be construed to be a waiver of any such default or breach of duty or contract or an acquiescence therein, and every right or remedy conferred upon the Corporation by law or by this article may be enforced and exercised from time to time and as often as shall be deemed expedient by the Corporation.

If any action, proceeding or suit to enforce any right or exercise any remedy is abandoned or determined adversely to the Corporation, the City and the Corporation shall be restored to their former positions, rights and remedies **as** if such action, proceeding **or** suit had not been brought or taken.

Section 8.05. Remedies Not Exclusive. No remedy herein conferred upon or reserved to the Corporation is intended to be exclusive of any other remedy, and each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise and may be exercised without exhausting and without regard to any other remedy conferred by law.

ARTICLE IX

DISCHARGE OF OBLIGATIONS

Section 9.01. Discharge of Obligations. The Principal Installment of any Installment Payment, and the Interest Installments related to such Principal Installment, shall be deemed paid and all obligations of the City with respect thereto shall cease and terminate (except for payment from deposited funds and Defeasance Securities as provided in Article VIII of the Trust Agreement) when the Certificates evidencing an ownership interest in such Principal Installment have been paid or deemed paid in accordance with the applicable provisions of Article VIII of the Trust Agreement.

Section 9.02. Accounting and Discharge Instruments. **After** the payment, or provision for the payment as provided in Section 9.01, of all Installment Payments and payment in full of all fees and expenses of the Corporation and the Trustee, the Corporation, upon request of the City, shall cause an accounting for such period or periods **as** may be requested by the City to be prepared and filed with the City and the Corporation shall execute and deliver to the City all such instruments as may be necessary or desirable to evidence such total discharge and satisfaction of this Contract.

ARTICLE X

MISCELLANEOUS

Section 10.01. Payment Liability of City Limited. Notwithstanding anything contained herein, the City shall not be required to advance any moneys derived from any source of income other than the Net Revenues and amounts in the Electric Revenue Fund for the payment of the Installment Payments or for the performance of any agreements or covenants required to be performed by it contained herein. The City may, however, advance moneys for any such purpose so long as such moneys are derived from a source legally available for such purpose and may be legally used by the City for such purpose.

The obligation of the City to make the Installment Payments is a special obligation of the City payable solely from the Net Revenues and amounts in the Electric Revenue Fund as provided herein. The general fund of the City is not liable, and neither the faith and credit nor the taxing power of the City is pledged, for the payment of the Installment Payments or the performance or satisfaction of any other obligations of the City hereunder.

Section 10.02. Amendments. The Corporation and the City shall not supplement, amend, modify or terminate any of the terms of this Contract unless the conditions set forth in Section 4.06 of the Trust Agreement have been satisfied.

Section 10.03. Assignment of Contract. The City hereby acknowledges that the Corporation, for good and valuable consideration, has transferred, assigned and sent over to the Trustee, pursuant to the provisions of the Trust Agreement, all of the Installment Payments and any and all rights and privileges it has hereunder with respect to the Installment Payments and references to the Corporation herein to the Corporation's rights with respect to the Installment Payments (but not the obligations of the Corporation hereunder, it being understood that the Trustee shall not assume any responsibility for any duties or covenants or warranties of the Corporation hereunder) shall be construed to be references to the Trustee.

Section 10.04. Benefits of Contracts Limited to Parties. Nothing contained in this Contract, expressed or implied, is intended to give to any person other than the Corporation, the Trustee (with respect to its rights pursuant to Sections 4.01(b) and 10.12 hereof and as the assignee of the Corporation's rights hereunder), the City, or the Certificate Insurer (so long as the Certificate Insurer is not in default under a Certificate Insurance Policy) any right, remedy or claim under or pursuant thereto, and any agreement or covenant required herein to be performed by or on behalf of the Corporation (and the Trustee, as the assignee of the Corporation's rights hereunder) or the City shall be for the sole and exclusive benefit of the other party.

Section 10.05. Successor Is Deemed Included in all References to Predecessor. Whenever either the Corporation or the City is named or referred to herein, such reference shall be deemed to include the successor to the powers, duties and functions that are presently vested in the Corporation or the City, and all agreements and covenants required hereby to be performed by or on behalf of the Corporation or the City shall bind and inure to the benefit of the respective successors thereof whether so expressed or not.

Section 10.06. Waiver of Personal Liability. No officer or employee of the City shall be individually or personally liable for the payment of the Installment Payments or the performance or satisfaction of any other obligation of the City hereunder, but nothing contained herein shall relieve any officer or employee of the City from the performance of any official duty provided by any applicable provisions of law or by the terms of this Contract.

Section 10.07. Article and Section Headings, Gender and References. The headings or titles of the several articles and sections hereof and the table of contents appended hereto shall be solely for convenience of reference and shall not affect the meaning, construction or effect hereof, and words of any gender shall be deemed and construed to include all genders. All references herein to "Articles," "Sections," "Exhibits" and other subdivisions or clauses are to the corresponding articles, sections, exhibits, subdivisions or clauses hereof; and the words "hereby," "herein," "hereof," "hereto," "herewith" and other words of similar import refer to this Contract as a whole and not to any particular article, section, exhibit, subdivision or clause hereof

Section 10.08. Partial Invalidity. If any one or more of the agreements or covenants or portions thereof required hereby to be performed by or on the part of the Corporation or the City shall be contrary to law, then such agreement or agreements, such covenant or covenants or such portions thereof shall be null and void and shall be deemed separable from the remaining agreements and covenants or portions thereof and shall in no way affect the validity hereof. The Corporation and the City hereby declare that they would have executed this Contract, and each and every other article, section, paragraph, subdivision, sentence, clause and phrase hereof irrespective of the fact that any one or more articles, sections, paragraphs, subdivisions, sentences, clauses or phrases hereof or the application thereof to any person or circumstance may be held to be unconstitutional, unenforceable or invalid.

Section 10.09. Net Contract. This Contract shall be deemed and construed to be a net contract, and the City shall pay absolutely net during the term hereof the Installment Payments and all other payments required under this Contract, free of any deductions and without abatement, diminution or set-off whatsoever.

Section 10.10. California Law. This Contract shall be construed and governed in accordance with the laws of the State of California.

Section 10.11. Indemnification. The City shall, to the full extent then permitted by law, indemnify, protect, hold harmless, save and keep harmless the Corporation and the Trustee and their directors, officers and employees from and against any and all liability, obligations, **losses**, claims and damages whatsoever, regardless of the cause thereof, and expenses in connection therewith, including, without limitation, counsel fees and expenses, penalties and interest arising out of or as the result of (i) the entering into of this Contract, the use of any of the Existing Facilities or any accident in connection with the operation, **use**, condition or possession of any of the Existing Facilities or any portion thereof resulting in damage to property or injury to or death to any person including, without limitation, any claim alleging latent and other defects, whether or not discoverable by the City or the Corporation, (ii) any claim for patent, trademark or copyright infringement, (iii) any claim arising **out** of strict liability in tort, (iv) without negligence or willful misconduct, the Trustee's acceptance or administration of the trust under

the Trust Agreement, or the exercise or performance of any of its powers or duties thereunder or hereunder; or (v) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of any Certificates executed and delivered under the Trust Agreement. The indemnification arising under this Section shall continue in full force and effect notwithstanding the full payment of all obligations hereunder or the termination of the other provisions hereof for any reason. The City agrees not to withhold or abate any portion of the Installment Payments required pursuant hereto by reason of any defects, malfunctions, breakdowns or infirmities of any of the Existing Facilities. The City and the Corporation mutually agree to promptly give notice to each other of any claim or liability hereby indemnified against following either's learning thereof. The rights to indemnification from the City hereunder shall survive the termination hereof or the resignation or removal of the Trustee.

Section 10.12.Funds. Any fund required to be established and maintained herein by the City may be established and maintained in the accounting records of the City either as an account or a fund and may, for the purpose of such accounting records, any audits thereof and any reports or statements with respect thereto, be treated either as an account or a fund; but all such records with respect to any such fund shall at all times be maintained in accordance with sound accounting practice.

Section 10.13.Notices. All notices, certificates or other communications hereunder shall be deemed sufficiently given upon actual receipt thereof when received by the City, the Corporation, the Trustee, the Certificate Insurer, the Liquidity Provider, the Remarketing Agent and the Rating Agencies, as the case may be, at the respective address provided pursuant to Section 11.08 of the Trust Agreement or, if mailed by first class mail, postage prepaid, addressed to the appropriate address provided pursuant to Section 11.08 of the Trust Agreement, six Business Days after deposit in the United States mail.

Unless otherwise requested by the City, the Corporation, the Trustee, the Certificate Insurer, the Liquidity Provider, the Remarketing Agent or a Rating Agency, any notice required to be given hereunder in writing may be given by any form of telephonic or electronic transmission capable of making a written record. Each such party shall file with the Trustee information appropriate to receiving such form of telephonic or electronic transmission. Any of the parties noted above may, by notice given hereunder, designate any different addresses to which subsequent notices, certificates or other communications shall be sent.

Section 10.14.Effective Date. This Contract shall become effective upon its execution and delivery, and, except as otherwise specifically provided with respect to particular terms hereof, shall terminate when the Installment Payments provided herein shall have been fully paid (or provision for the payment thereof shall have been made pursuant to Article IX hereof).

Section 10.15.Execution in Counterpart. This Contract may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

[Remainder of Page Intentionally Left Blank.]

IN WITNESS WHEREOF, the parties hereto have executed and attested this Contract by their respective officers thereunto duly authorized, as of the day and year first written above.

CITY OF LODI

By _____
City Manager

Attest:

City Clerk

APPROVED:

City Attorney

LODI PUBLIC IMPROVEMENT
CORPORATION

President

Attest:

Secretary for the Corporation

APPROVED:

Attorney for the Corporation

SCHEDULE A

SCHEDULE OF INSTALLMENT PAYMENTS AS OF DELIVERY DATE

As of the Delivery Date, the scheduled Principal Installments of the Installment Payments consist of the following amounts with such Principal Installments due on the fifth day preceding the dates indicated below and with Interest Installments on each such Principal Installment determined at the rate per annum indicated below:

<u>Date</u>	<u>Principal Installment</u>	<u>Rate of Interest for Interest Installment</u>
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EXHIBIT 1

DESCRIPTION OF EXISTING FACILITIES

The Existing Facilities consist of the following generally described improvements, facilities and extensions of the Electric System: [To Be Completed by City]:

PURCHASE CONTRACT
\$ _____
CITY OF LODI
ELECTRIC SYSTEM REVENUE
CERTIFICATES OF PARTICIPATION, 2008 SERIES A

_____, 2008

City of Lodi
221 West Pine Street
Lodi, California 95241-1910

Ladies and Gentlemen:

The undersigned, collectively, the "Underwriter", offers to enter into this purchase contract "Purchase Contract" with the City of Lodi "the City", which will be binding upon the City and the Underwriter upon the acceptance hereof by the City. This offer is made subject to its acceptance by the City by execution of this Purchase Contract and its delivery to the Underwriter on or before 5:00 p.m., California time, on the date hereof. All terms **used** herein and not otherwise defined shall have the meanings given to such terms in the Trust Agreement (as hereafter defined).

1. Purchase and Sale. Upon the terms and conditions and upon the basis of the representations, warranties and agreements hereinafter set forth, the Underwriter hereby agrees to purchase, and the City hereby agrees to cause to be delivered to the Underwriter, all (but not less than all) of the \$_____ aggregate principal amount of the above-captioned certificates of participation "the 2008 Certificates" at a purchase price of \$_____ (being an amount equal to the principal amount of the 2008 Certificates, plus net original issue premium of \$_____, less an underwriter's discount of \$_____).

2. Purpose; Authorizing Instruments and Law. The 2008 Certificates are being sold to provide funds (i) to refund the outstanding \$_____ principal amount of Electric System Revenue Certificates of Participation 2002 Series A Variable Rate Certificates, the "Refunded 2002 Certificates" of the City (ii) to pay costs of delivery of the 2008 Certificates (iii) fund certain costs relating to termination of swap agreement relating to the Refunded 2002 Certificates and (iv) fund a reserve fund for the 2008 Certificates.

The 2008 Certificates evidence the proportionate interests of the Owners thereof in the Installment Payments, the "Installment Payments", to be made by the City under the terms of the Installment Purchase Contract, dated as of August 1, 2008, the "2008 Contract", between the City and the Lodi Public Improvement Corporation the "Corporation". Pursuant to the 2008 Contract, the City will make the Installment Payments to the Corporation from Net Revenues of the City's Electric System.

The Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of August 1, 2008 the "Trust Agreement", by and among The **Bank** of New York Trust Company, N.A., as trustee "the Trustee" the Corporation and the City. The 2008 Certificates shall be as described in the Trust Agreement and the Official Statement (**as** hereafter defined).

Concurrently with execution and delivery of the 2008 Certificates, Assured Guaranty Corp. (the "Insurer") will issue a financial guaranty insurance policy, the "Insurance Policy", to insure payment of principal of and interest with respect to the 2008 Certificates.

[The City will enter into an Escrow Deposit Agreement, dated as of August 1, 2008 (the "Escrow Agreement"), with _____, as escrow agent (the "Escrow Agent"), in order to implement the prepayment of the Refunded 2002 Certificates.]

3. Public Offering. The Underwriter agrees to make a bona fide public offering of **all** the 2008 Certificates initially at the public offering prices (or yields) set forth on Appendix A attached hereto and incorporated herein by reference. Subsequent to the initial public offering, the underwriter reserves the right to change the public offering prices (or yields) as it deems necessary in connection with the marketing of the 2008 Certificates, provided that the Underwriter shall not change the interest rates set forth on Appendix A. The Certificates may be offered and sold to certain dealers at prices lower than such initial public offering prices.

4. Delivery of Official Statement: Continuing Disclosure. Pursuant to the authorization of the City, the Underwriter has distributed copies of the Preliminary Official Statement dated June __, 2008, relating to the 2008 Certificates "the Preliminary Official Statement" to prospective purchasers of the 2008 Certificates. By its acceptance of this proposal, the City hereby ratifies such use by the Underwriter of the Preliminary Official Statement; and the City agrees to approve a final Official Statement relating to the 2008 Certificates the "Official Statement" which will consist of the Preliminary Official Statement with such changes as may be made thereto, with the approval of the City and the Underwriter, and to provide copies thereof to the Underwriter as set forth in Section 6(o) hereof. The Underwriter hereby agrees to deposit the Official Statement with a nationally recognized municipal securities information depository. The City hereby authorizes the Underwriter to use and distribute, in connection with the offer and sale of the 2008 Certificates, the Preliminary Official Statement, the Official Statement, the Trust Agreement, the Continuing Disclosure Certificate (defined below), the Installment Purchase Agreement, the Escrow Agreement, and this Purchase Contract and all information contained herein, and all other documents, certificates and statements furnished by the City to the Underwriter in connection with the transactions contemplated by this Purchase Contract.

In connection with distribution of the Preliminary Official Statement, the City will execute a certificate in the form attached hereto as Exhibit B.

The City will undertake, pursuant to the Installment Purchase Agreement and a Continuing Disclosure Certificate "the Continuing Disclosure Certificate", to provide certain annual financial information and notices of the occurrence of certain events, if material. A description of such undertaking is set forth in the Preliminary Official Statement and will also be set forth in the Official Statement,

5. The Closing. At 8:00 a.m., California time, on December 5, 2007 or at such other time or on such earlier or later business day as shall have been mutually agreed upon by the City and the Underwriter, the City will cause to be delivered (i) the 2008 Certificates, through the facilities of The Depository Trust Company, to the Underwriter in New York, New York, and (ii) the closing documents hereinafter mentioned at the offices of Orrick, Herrington & Sutcliffe LLP (Special Counsel), San Francisco, California, or another place to be mutually agreed upon by the City and the Underwriter. The Underwriter will accept such delivery and pay the purchase price of the 2008

Certificates as set forth in Section 1 hereof in immediately available funds. This payment and delivery, together with the delivery of the aforementioned documents, is herein called the Closing. The Certificates will be delivered in such denominations and deposited in the account or accounts specified by the Underwriter pursuant to written notice to the City not later than five business days prior to Closing.

6. Representations, Warranties and Covenants. The City represents, warrants to and covenants with to the Underwriter that:

(a) Due Organization Existence and Authority. The City is a municipal corporation and general law city duly organized and existing under the Constitution and laws of the State of California “the State”, with full right, power and authority to execute, deliver and perform its obligations under this Purchase Contract, the Trust Agreement, the Installment Purchase Agreement, the Escrow Agreement, and the Continuing Disclosure Certificate, collectively, the City Documents, and to carry out and consummate the transactions on its part contemplated by the City Documents and the Official Statement.

(b) Due Authorization and Approval. By all necessary official action of the City, the City has duly authorized and approved the execution and delivery of, and the performance by the City of the obligations on its part contained in the City Documents; and as of the date hereof, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. The City has complied, and will at the Closing be in compliance in all respects, with its obligations under the City Documents and the documents relating to the Existing Parity Obligations, “the Existing Parity Obligations Documents.”

(c) Official Statement Accurate and Complete. The Preliminary Official Statement was as of its date, and the Official Statement is, and at all times subsequent to the date of the Official Statement up to and including the Closing will be, true and correct in all material respects, and the Preliminary Official Statement and the Official Statement contain and up to and including the Closing will contain no misstatement of any material fact and do not, and up to and including the Closing will not, omit any statement necessary to make the statements contained therein, in the light of the circumstances in which such statements were made, not misleading.

(d) Underwriter’s Consent to Amendments and Supplements to Official Statement. The City will advise the Underwriter promptly of any proposal to amend or supplement the Official Statement and will not effect or consent to any such amendment or supplement without the consent of the Underwriter, which consent will not be unreasonably withheld. The City will advise the Underwriter promptly of the institution of any proceedings known to it by any governmental agency prohibiting or otherwise affecting the use of the Official Statement in connection with the offering, sale or distribution of the 2008 Certificates.

(e) Agency Agreement to Amend or Supplement Official Statement. If after the date of this Purchase Contract and until 25 days after the end of the underwriting period (as defined below), any event occurs as a result of which the Official Statement as then amended or supplemented would include an untrue statement of a material fact, or omit to state any material fact necessary in order to make the statements contained therein, in the light of the

circumstances under which they were made, not misleading, and, in the reasonable opinion of the Underwriter, an amended *or* supplemented Official Statement should be delivered in connection with the offers or sales of the 2008 Certificates to reflect such event, the City promptly will prepare at its expense an amendment or supplement which will correct such statement or omission and the City shall promptly furnish to the Underwriter a reasonable number of copies of such amendment or supplement. Unless the Underwriter otherwise advises the City in writing that the end of the underwriting period shall be another specified date, the end of the underwriting period shall be the day of Closing.

(f) No Material Change in Finances. At the time of the Closing, there shall not have been any material adverse changes in the financial condition of the City since the date hereof.

(g) No Breach or Default. As of the time of acceptance hereof and as of the time of the Closing, the City is not and will not be, in any manner which would adversely affect the transactions on the part of the City contemplated hereby and by the City Documents, in breach of or in default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or **any** trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, *or* both, would constitute, in any manner which would adversely affect the transactions on the part of the City contemplated hereby and by the City Documents, a default or event of default under any such instrument; and, as of such times, the authorization, execution and delivery of the City Documents and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the City (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the City Documents.

(h) No Litigation. As of the time of acceptance hereof and as of the date of the Closing, no action, suit, **proceeding**, inquiry or investigation, at law or in equity, **before or by** any court, government agency, public board or body, **is pending with respect to** which the City has been served with process, to the best knowledge of the City after due investigation, threatened (i) in any way questioning the corporate existence of the City or the titles of the officers of the City to their respective offices; (ii) affecting, contesting or seeking to prohibit, restrain or enjoin the execution and delivery of the 2008 Certificates, or in any way contesting or affecting the validity of the City Documents or the consummation of the transactions contemplated thereby, or contesting the exclusion of interest evidenced and represented by the 2008 Certificates from gross income for federal income tax purposes or contesting the powers of the City to enter into the City Documents; (iii) which may result in any material adverse impact on the financial condition of the City; or (iv) contesting the completeness or accuracy of the Preliminary Official Statement *or* the Official Statement or any supplement or amendment thereto or asserting that the Preliminary Official Statement or

the Official Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and there is no known basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (i) through (iv) of this sentence.

(i) Further Cooperation: Blue Sky. The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request in order (i) to qualify the 2008 Certificates for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate and (ii) to determine the eligibility of the 2008 Certificates for investment under the laws of such states and other jurisdictions; provided, however, that the City shall not be required to execute a general or special consent to service of process or qualify to do business in connection with any such qualification or determination in any jurisdiction.

(j) Consents and Approvals. All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would adversely affect the due performance by the City of its obligations in connection with, the City Documents have been duly obtained or made, except as may be required under the Blue Sky or securities laws of any state in connection with the offering and sale of the 2008 Certificates.

(k) Validity of City Documents. The City Documents, when executed and delivered by the City and other parties thereto, will be legally valid and binding obligations of the City enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally.

(l) No Other Obligations. Other than the Existing Parity Obligations, there is no other lien or encumbrance on the SystemNet Revenues of the System.

(m) Certificates. Any certificate signed by any official of the City and delivered to the Underwriter shall be deemed to be a representation and warranty by the City to the Underwriter as to the statements made therein.

(n) Compliance With Rule 15c2-12.

(1) The Preliminary Official Statement heretofore delivered to the Underwriter is deemed final by the City as of its date and as of the date hereof, except for the omission of such information as is permitted to be omitted in accordance with paragraph (b)(1) of Rule 15c2-12. The City hereby covenants and agrees that, within seven business days from the date hereof, the City shall cause a final printed form of the Official Statement to be delivered to the Underwriter in sufficient quantity to comply with paragraph (b)(4) of Rule 15c2-12 and Rules of the Municipal Securities Rulemaking Board.

(2) The City has not previously failed to comply with any continuing disclosure obligation undertaken pursuant to Rule 15c2-12.

7. Closing Conditions. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and covenants of the City herein and the performance by the City of its obligations hereunder, both as of the date hereof and as of the date of the Closing. The Underwriter's obligations under this Purchase Contract are and shall be subject to the following additional conditions:

(a) Bring -Down Representation. The representations, warranties and covenants of the City contained herein shall be true and correct at the date hereof and at the time of the Closing, as if made on the date of the Closing.

(b) Executed Agreements and Performance Thereunder. At the time of the Closing (i) the City Documents shall be in full force and effect, and shall not have been amended, modified or supplemented except with the written consent of the Underwriter, (ii) there shall be in full force and effect such resolutions, the "Resolutions" as, in the opinion of Special Counsel, shall be necessary in connection with the transactions contemplated by the Official Statement and the City Documents, (iii) the City shall perform or have performed its obligations required as specified in this Purchase Contract or the City Documents to be performed at or prior to Closing, (iv) the Corporation shall perform or have performed its obligations required as specified in the Trust Agreement or the Installment Purchase Agreement, collectively, the "Corporation Documents" to be performed at or prior to Closing, and (v) the Official Statement shall not have been supplemented or amended, except pursuant to Paragraph 6(e) or as otherwise may have been agreed to in writing by the Underwriter.

(c) No Default. At the time of the Closing, no default shall have occurred or be existing under the Resolutions, the Corporation Documents or the City Documents, and the City shall not be in default in the payment of any of its bonded indebtedness or any of its other obligations, which default would adversely impact the ability of the City to make Installment Payments.

(d) Termination Events. The Underwriter shall have the right to terminate this Purchase Contract, without liability therefor, by written notification to the Corporation and the City if at any time at or prior to the Closing:

(1) Any event shall occur which causes any statement contained in the Official Statement to be materially misleading or results in a failure of the Official Statement to state a material fact necessary to make the statements in the Official Statement, in the light of the circumstances under which they were made, not misleading; or

(2) The marketability of the 2008 Certificates or the market price thereof, in the opinion of the Underwriter, has been materially adversely affected by an amendment to the Constitution of the United States or by any legislation in or by the Congress of the United States or by the State, or the amendment of legislation pending as of the date of this Purchase Contract in the Congress of the United States, or the recommendation to Congress or endorsement for passage (by press release,

other form of notice or otherwise) of legislation by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or the proposal for consideration of legislation by either such Committee or by any member thereof, or the presentment of legislation for consideration as an option by either such Committee, or by the staff of the Joint Committee on Taxation of the Congress of the United States, or the favorable reporting for passage of legislation to either House of the Congress of the United States by a Committee of such House to which such legislation has been referred for consideration, or any decision of any federal or State court or any ruling or regulation (final, temporary or proposed) or official statement on behalf of the United States Treasury Department, the Internal Revenue Service or other federal or State authority materially adversely affecting the federal or State tax status of the City or the Corporation, or the interest on bonds or notes or obligations of the general character of the 2008 Certificates; or

(3) Any legislation, ordinance, rule or regulation shall be introduced in, or be enacted by any governmental body, department or agency of the State, or a decision by any court of competent jurisdiction within the State or any court of the United States shall be rendered which, in the reasonable opinion of the Underwriter, materially adversely affects the market price of the 2008 Certificates; or

(4) Legislation shall be enacted by the Congress of the United States, or a decision by a court of the United States shall be rendered, or a stop order, ruling, regulation or official statement by, or on behalf of, the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the execution, delivery, offering or sale of securities of the general character of the 2008 Certificates, or the execution, delivery, offering or sale of the 2008 Certificates, including all underlying obligations, as contemplated hereby or by the Official Statement, is in violation or would be in violation of, or that securities of the general character of the 2008 Certificates, or the 2008 Certificates, are not exempt from registration under, any provision of the federal securities laws, including the Securities Act of 1933, as amended and as then in effect, or that the Tmst Agreement needs to be qualified under the Trust Indenture Act of 1939, as amended and as then in effect; or

(5) Additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange which restrictions materially adversely affect the Underwriter's ability to trade the 2008 Certificates; or

(6) A general banking moratorium shall have been established by federal or State authorities; or

(7) The United States has become engaged in hostilities which have resulted in a declaration of war or a national emergency or there has occurred any other outbreak of hostilities or a national or international calamity or crisis, financial or otherwise, the effect of such outbreak, calamity or crisis on the financial markets

of the United States, being such as, in the reasonable opinion of the Underwriter, would affect materially and adversely the ability of the Underwriter to market or deliver the 2008 Certificates; or

(8) Any rating of the securities of the City shall have been downgraded, suspended or withdrawn by a national rating service, which, in the Underwriter's reasonable opinion, materially adversely affects the marketability or market price of the 2008 Certificates; or

(9) The commencement of any action, suit or proceeding described in paragraphs 6(h) hereof which, in the judgment of the Underwriter, materially adversely affects the market price of the 2008 Certificates; or

(10) There shall be in force a general suspension of trading on the New York Stock Exchange.

(e) Closing Documents. At or prior to the Closing, the Underwriter shall receive (unless the context otherwise indicates) the following documents:

(1) Final Opinion. An approving opinion of Special Counsel dated the date of the Closing and substantially in the form included as Appendix F to the Official Statement, together with a letter from such counsel, dated the date of the Closing and addressed to the Underwriter, to the effect that the foregoing opinion addressed to the City may be relied upon by the Underwriter to the same extent as if such opinion were addressed to it.

(2) Supplemental Opinion. A supplemental opinion of Special Counsel addressed to the Underwriter, in form and substance acceptable to the Underwriter, and dated the date of the Closing substantially to the following effect:

(i) The Statements contained in the Official Statement under the captions THE 2007 CERTIFICATES, SECURITY AND SOURCES OF PAYMENT FOR ~~THE~~ 2007 CERTIFICATES, and TAX MATTERS, and in Appendix D and Appendix F thereto, excluding any material that may be treated as included under such captions by cross-reference, insofar as such statements expressly **summarize** certain provisions of the 2008 Certificates, the Trnst Agreement, the Installment Purchase Agreement and the form and content of Special Counsel's opinion, are accurate in all material respects; and

(ii) The Certificates are not subject to the registration requirements of the Securities Act of 1933, as amended, and the Trust Agreement is exempt from qualification pursuant to the Trust Indenture Act of 1939, as amended (provided no opinion need be expressed with respect to the Insurance Policy or the Surety Bond issued by the Insurer).

(3) City Attorney Opinion. An opinion of the City Attorney, dated the date of the Closing and addressed to the Underwriter, in form and substance acceptable to the Underwriter substantially to the following effect:

(i) The City is a municipal corporation and general law city, duly organized and validly existing under the Constitution and the laws of the State of California;

(ii) The City has full legal power and lawful authority to enter into the City Documents;

(iii) The City Documents have been duly authorized, executed and delivered by the City and constitute the legal, valid and binding agreements of the City enforceable against the City in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally;

(iv) The resolutions "City Resolutions" of the City approving and authorizing the execution and delivery of the City Documents, and approving the Official Statement, were duly adopted at meetings of the City Council called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the City Resolutions are in full force and effect and have not been modified, amended or rescinded;

(v) The execution and delivery of the City Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with, or constitute on the part of the City a breach of or default under, any agreement or other instrument to which the City is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the City is subject;

(vi) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public *or* private, not previously obtained is required as of the date of the Closing for the City to enter into the City Documents, or to perform its obligations thereunder;

(vii) Except as otherwise disclosed in the Official Statement, there is no litigation, proceeding, action, ~~suit~~, or ~~investigation at law or in equity~~ before or by any court, governmental agency *or* body, pending or, to the best knowledge of such counsel after due investigation, threatened against the City, challenging the creation, organization or existence of the City, or the validity of the City Documents or seeking to restrain or enjoin the Installment Payments or in any way contesting or affecting the validity of the City Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the City to enter into or perform its obligations under any of the City Documents, or under which a determination adverse to the City would have a material adverse effect upon the financial condition or the revenues of the City, or which, in any manner, questions or affects the right *or* ability of the City to enter into the City Documents or

affects in any manner the right or ability of the City to make Installment Payments;

(viii) That nothing has come to the attention of such counsel which would lead it to believe that the Official Statement (excluding therefrom the financial and statistical data and forecasts included therein and information about the Insurer and The Depository Trust Company, as to which no opinion need be expressed) contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and

(4) Trustee Counsel Opinion. The opinion of counsel to the Trustee, dated the date of the Closing, addressed to the Underwriter, to the effect that:

(i) The Trustee has all necessary power to enter into, accept and administer the trust created under the Trust Agreement;

(ii) The Trust Agreement has been duly authorized, executed and delivered by the Trustee and the Trust Agreement constitutes the legal, valid and binding obligation of the Trustee enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought; and

(iii) The Certificates have been executed by a duly authorized officer of the Trustee.

(5) Escrow Agent Counsel Opinion. The opinion of counsel to the Escrow Agent, dated the date of the Closing, addressed to the Underwriter, to the effect that:

(i) The Escrow Agent has all necessary power to enter into, accept and administer the trust created under the Escrow Agreement; and

(ii) The Escrow Agreement has been duly authorized, executed and delivered by the Escrow Agent and the Escrow Agreement constitutes the legal, valid and binding obligation of the Escrow Agent enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought.

(6) Corporation Counsel Opinion. An opinion of the City Attorney, as general counsel to the Corporation, dated the date of the Closing and addressed to the Underwriter, in ~~form~~ and substance acceptable to the Underwriter substantially to the following effect:

(i) The Corporation is a nonprofit, public benefit corporation, duly organized and validly existing under the Constitution and the laws of the State of California;

(ii) The Corporation has full legal power and lawful authority to enter into the Corporation Documents;

(iii) The Corporation Documents have been duly authorized, executed and delivered by the Corporation and constitute the legal, valid and binding agreements of the Corporation enforceable against the Corporation in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization moratorium or similar laws or equitable principles relating to or limiting creditors' rights generally;

(iv) The resolutions "Corporation Resolutions" of the Corporation approving and authorizing the execution and delivery of the Corporation Documents, were duly adopted at meetings of the Board of Directors of the Corporation called and held pursuant to law and with all public notice required by law and at which a quorum was present and acting throughout and the Corporation Resolutions are in full force and effect and have not been modified, amended or rescinded;

(v) The execution and delivery of the Corporation Documents and compliance with the provisions thereof, under the circumstances contemplated thereby, do not and will not in any material respect conflict with, or constitute on the part of the Corporation a breach of or default under, any agreement or other instrument to which the Corporation is a party or by which it is bound or any existing law, regulation, court order or consent decree to which the Corporation is subject;

(vi) No additional authorization, approval, consent, waiver or any other action by any person, board or body, public or private, not previously obtained is required as of the date of the Closing for the Corporation to enter into the Corporation Documents, or to perform its obligations thereunder;

(vii) Except as otherwise disclosed in the Official Statement, there is no litigation, proceeding, action, suit, or investigation at law or in equity before or by any court, governmental agency or body, pending or, to the best knowledge of such counsel after due investigation, threatened against the Corporation, challenging the creation, organization or existence of the Corporation, or the validity of the Corporation Documents or in any way contesting or affecting the validity of the Corporation Documents or any of the transactions referred to therein or contemplated thereby or contesting the authority of the Corporation to enter into or perform its obligations under any of the Corporation Documents;

(7) City Closing Certificate. A certificate of the City, dated the date of the Closing, signed on behalf of the City by the City Manager, the Deputy City Manager, or other duly authorized officer of the City to the effect that:

(i) The representations, warranties and covenants of the City contained herein are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing and the City has complied with all of the terms and conditions of this Purchase Contract required to be complied with by the City at or prior to the date of the Closing; and

(ii) No event affecting the City has occurred since the date of the Official Statement which has not been disclosed therein or in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(8) Corporation Closing Certificate. A certificate of the Corporation, dated the date of the Closing, signed on behalf of the Corporation by a duly authorized officer of the Corporation to the effect that:

(i) The Corporation is a nonprofit, public benefit corporation, duly created and lawfully existing under the laws of the State, with full right, power and authority to execute, deliver and perform its obligations under the Corporation Documents and to carry out and consummate the transactions on its part contemplated by the Corporation Documents and the Official Statement;

(ii) By all necessary official action, the Corporation has duly authorized and approved the execution and delivery of, and the performance by the Corporation of the obligations on its part contained in the Corporation Documents and as of the Closing Date, such authorizations and approvals are in full force and effect and have not been amended, modified or rescinded. The Corporation is in compliance in all material respects with the terms of the Corporation Documents;

(iii) **The** Corporation is not, in any manner which would adversely affect the transactions contemplated by the Corporation Documents, in breach **of** or in **default** under **any applicable constitutional** provision, law or administrative rule or regulation of the State or the United States, or any applicable judgment or decree or any trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument to which the Corporation is a party or is otherwise subject, and no event has occurred and is continuing which, with the passage of time or the giving of notice, or both, would constitute, in any manner which would adversely affect the transactions contemplated by the Corporation Documents, a default or event of default under any such instrument; and the authorization, execution and delivery of the Corporation Documents and compliance with the provisions of each of such agreements or instruments do not and will not conflict with or constitute a breach of or default under any applicable constitutional provision, law or administrative rule or regulation of the State or the United States or any applicable judgment, decree, license, permit, trust agreement, loan agreement, bond, note, resolution, ordinance, agreement or other instrument

to which the Corporation (or any of its officers in their respective capacities as such) is subject, or by which it or any of its properties is bound, nor will any such authorization, execution, delivery or compliance result in the creation **or** imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of its assets or properties or under the terms of any such law, regulation or instrument, except as may be provided by the Corporation Documents;

(iv) There is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, government agency, public board or body, pending with respect to which the Corporation has been served with process or, to the best knowledge of the Corporation after due investigation, threatened (a) in any way questioning the existence of the Corporation or the titles of the officers of the Corporation to their respective offices; (b) affecting, contesting or seeking to prohibit, restrain or enjoin the execution and delivery of the 2008 Certificates, or in any way contesting or affecting the validity of the Corporation Documents or the consummation of the transactions contemplated thereby, or contesting the powers of the Corporation to enter into the Corporation Documents; or (c) which may result in any material adverse impact on the financial condition of the Corporation, and there is no basis for any action, suit, proceeding, inquiry or investigation of the nature described in clauses (a) through (c) of this sentence;

(v) The Corporation Documents are valid and binding obligations of the Corporation enforceable in accordance with their respective terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws **or** equitable principles relating to or limiting creditors' rights generally;

(vi) All authorizations, approvals, licenses, permits, consents and orders of or filings with any governmental authority, legislative body, board, agency or commission having jurisdiction in the matters which are required for the due authorization of, which would constitute a condition precedent to or the absence of which would adversely affect the due performance by the **Corporation of its obligations in connection** with, the Corporation Documents have **been duly obtained or made, except as may be required under the** Blue Sky or securities laws of any state in connection with the offering and sale of the 2008 certificates; and

(vii) No event affecting the Corporation has occurred since the date of the Official Statement which has not been disclosed therein **or** in any supplement or amendment thereto which event should be disclosed in the Official Statement in order to make the statements with respect to the Corporation therein, in the light of the circumstances under which they were made, not misleading.

(9) Trustee's Certificate. A certificate of the Trustee, dated the date of Closing, addressed to the City and the Underwriter, in form and substance acceptable to the Underwriter, to the following effect:

(i) The Trustee has all necessary power to enter into, accept and administer the trust created under the Trust Agreement;

(ii) The Trust Agreement has been duly authorized, executed and delivered by the Trustee and the Trust Agreement constitutes the legal, valid and binding obligation of the Trustee enforceable in accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the execution and delivery of the Trust Agreement or the performance by the Trustee of its duties and obligations under the Trust Agreement;

(iv) The Certificates have been executed by a duly authorized officer of the Trustee;

(v) The execution and delivery by the Trustee of the Trust Agreement and compliance with the terms thereof will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties (except that no representation, warranty or agreement need be made by such counsel with respect to any federal or State securities or blue sky laws or regulations); and

(vi) There is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body pending, or to the best knowledge of the Trustee, threatened against the Trustee which in the reasonable judgment of the Trustee would affect the existence of the Trustee or in any way contesting or affecting the validity or enforceability of the Trust Agreement or contesting the powers of the Trustee or its authority to enter into and perform its obligation thereunder.

(10) Escrow Agent's Certificate. A certificate of the Escrow Agent, dated the date of Closing, addressed to the Agency and the Underwriter, in form and substance acceptable to the Underwriter, to the following effect:

(i) The Escrow Agent has all necessary power to enter into, accept and administer the trust created under the Escrow Agreement;

(ii) The Escrow Agreement has been duly authorized, executed and delivered by the Escrow Agent and the Escrow Agreement constitutes the legal, valid and binding obligation of the Escrow Agent enforceable in

accordance with its terms, except as enforcement thereof may be limited by bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and by the application of equitable principles, if equitable remedies are sought;

(iii) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Escrow Agent that has not been obtained is or will be required for the execution and delivery of the Escrow Agreement or the performance by the Escrow Agent of its duties and obligations under the Escrow Agreement;

(iv) The execution and delivery by the Escrow Agent of the Escrow Agreement and compliance with the terms thereof will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Escrow Agent is a party or by which it is bound, or any law or any rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Escrow Agent or **any** of its activities or properties (except that no representation, warranty or agreement need be made by such counsel with respect to any federal *or* State securities or blue sky laws or regulations); and

(v) There is no action, suit, proceeding or investigation, at law or in equity, before or by any court or governmental agency, public board or body pending, or to the best knowledge of the Escrow Agent, threatened against the Escrow Agent which in the reasonable judgment of the Escrow Agent would affect the existence, of the Escrow Agent or in any way contesting or affecting the validity or enforceability of the Escrow Agreement or contesting the powers of the Escrow Agent or its authority to enter into and perform its obligation thereunder.

(11) Underwriter Counsel Opinion. A letter of Jones Hall, A Professional Law Corporation, counsel to the underwriter, dated the Closing Date, and addressed to the Underwriter, to the effect that:

(i) during the course of serving as counsel in connection with the execution and delivery of the 2008 Certificates and without having undertaken to determine independently or assuming any responsibility for the accuracy, completeness or fairness of the statements contained in the Official Statement, no information came to the attention of the attorneys in such firm rendering legal services in connection with the issuance of the 2008 Certificates that would lead them to believe that the Official Statement (excluding therefrom the financial statements, any financial or statistical data, or forecasts, charts, numbers, estimates, projections, assumptions or expressions of opinion included in the Official Statement, information regarding DTC and its book-entry system, or the Insurer and its Bond Insurance Policy and **Surety** Bond, and the appendices to the Official Statement as to which no opinion need be expressed), as of the date thereof or the Closing Date, contains any untrue statement of a material fact or omits to

state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and

(ii) the 2008 Certificates are exempt from registration pursuant to the Securities Act of 1933, as amended;

(12) Transcripts. Two transcripts of all proceedings relating to the authorization, execution and delivery of the City Documents, the Corporation Documents and the 2008 Certificates.

(13) Official Statement. The Official Statement and each supplement or amendment, if any, thereto, executed on behalf of the City by a duly authorized officer of the City.

(14) Documents. An original executed copy of each of the Corporation Documents and each of the City Documents.

(15) City Resolutions. Certified copies of the City Resolutions, certified by the City Clerk.

(16) 8038. Evidence that the federal ~~tax~~ information form 8038-G has been prepared for filing.

(17) Nonarbitrage Certificate. A ~~tax~~ and nonarbitrage certificate in form satisfactory to Special Counsel.

(18) CDIAC Statements. A copy of the Notices of Sale required to be delivered to the California Debt Investment and Advisory Commission pursuant to Section 53583 of the California Government Code.

(19) Insurance Policy: Surety Bond. The Insurance Policy and the Surety Bond issued by the Insurer.

(20) Insurer Certifications. A certificate and/or opinion of counsel, satisfactory to the City and Special Counsel, of the Insurer regarding the enforceability of **the Insurance Policy, the Surety Bond and** the statements in the Official Statement regarding the Insurer, the Surety Bond and the Insurance Policy.

(21) Compliance with Existing Parity Obligations. Evidence of compliance with the provisions of the Existing Parity Obligations Documents with respect to issuance of obligations **secured by** System Net Revenues on a parity with the Existing Parity Obligations.

(22) Defeasance Provisions. A defeasance opinion of Special Counsel pursuant to Section 10.05 of the Installment Sale Agreement dated as of December 1, 1991 relating to the 1991 Certificates.

(23) Escrow Verification Report. A report of Causey Demgen & Moore Inc. verifying the sufficiency of amounts deposited into the Escrow Fund established

under the Escrow Agreement to accomplish the proposed defeasance and prepayment of the Refunded 2002 Certificates.

(24) Additional Documents. Such additional certificates, instruments and other documents as the Underwriter or its counsel may reasonably deem necessary.

If the City shall be unable to satisfy the conditions contained in this Section 7, *or* if the obligations of the Underwriter shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate and neither the Underwriter nor the City shall be under further obligation hereunder, except as further set forth in Section 8 hereof.

8. Exuenses. The Underwriter shall be under no obligation to pay, and the City shall pay or cause to be paid, the expenses incident to the performance of the obligations of the City hereunder including but not limited to (a) the costs of the preparation and printing, or other reproduction (for distribution on or prior to the date hereof) of the Corporation Documents, the City Documents, and the cost of preparing, printing, executing and delivering the 2008 Certificates; (b) the fees and disbursements of the Trustee, any accountants *or* other experts or consultants retained by the City; (c) the fees and disbursements of Special Counsel; (d) the cost of preparation and printing of the Preliminary Official Statement and any supplements and amendments thereto and the cost of preparation and printing of the Official Statement, including a reasonable number of copies thereof for distribution by the Underwriter; (e) the premium for the Insurance Policy and the Surety Bond and (f) the fees of any rating agencies.

The Underwriter shall pay, and the City shall be under no obligation to pay, all expenses incurred by it in connection with the public offering and distribution of the 2008 Certificates (including the fees and expenses of its counsel), applicable CDIAAC fees and any advertising expenses.

9. Notice. Any notice or other communication to be given to the City under this Purchase Contract may be given by delivering the same in writing to such entity at the address first written above.

Any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Stone & Youngberg LLC, One Ferry Building, San Francisco, CA 94111, Attn: Eileen Gallagher.

10. Entire Agreement. This Purchase Contract, when accepted by the City, shall constitute the entire agreement between the ~~City~~ and the Underwriter and is made solely for the benefit of the City and the Underwriter (including the successors or assigns of my Underwriter). No other person shall acquire *or* have any right hereunder by virtue hereof, except as provided herein. All of the City's representations, warranties and agreements in this Purchase Contract shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of the Undenvriter, until the earlier of (a) delivery of and payment for the 2008 Certificates hereunder, and (b) any termination of this Purchase Contract.

11. Countemarts. This Purchase Contract may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all such counterparts shall together constitute but one and the same instrument.

12. Severability. In case any one or more of the provisions contained herein shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision hereof.

13. State Law Governs. The validity, interpretation and performance of this Purchase Contract shall be governed by the laws of the State.

14. No Assignment. The rights and obligations created by this Purchase Contract shall not be subject to assignment by the Underwriter or the City without the prior written consent of the other party hereto.

STONE& YOUNGBERG LLC,
on behalf of itself and Bear, Steams & Co., Inc

By: _____
Authorized Representative

Accepted as of the date first stated above:

CITY OF LODI

By: _____
City Manager

APPENDIX A

MATURITY SCHEDULE

<u>Principal Payment Date</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	<u>Price</u>	<u>CUSIP</u>
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APPENDIX B
CITY OF LODI
WASTEWATER SYSTEM REVENUE
CERTIFICATES OF PARTICIPATION, 2007 SERIES A

CERTIFICATE REGARDING FINALITY OF PRELIMINARY OFFICIAL STATEMENT

The undersigned hereby certifies and represents that he is the duly appointed and acting City Manager of the City of Lodi “the Agency”, and as such is duly authorized to execute and deliver this Certificate and further hereby certifies and reconfirms on behalf of the City as follows:

(1) This Certificate is delivered in connection with the offering and sale of the above-referenced certificates of participation “the 2008 Certificates” in order to enable the underwriter of the 2008 Certificates to comply with Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934 “the Rule”.

(2) In connection with the offering and sale of the 2008 Certificates, there has been prepared a Preliminary Official Statement, setting forth information concerning the 2008 Certificates and the City “the Preliminary Official Statement”.

(3) As used herein, Permitted Omissions shall mean the offering price(s), interest rate(s), selling compensation, aggregate principal amount, principal amount per maturity, delivery dates, ratings and other terms of the 2008 Certificates depending on such matters, all with respect to the 2008 Certificates.

(4) The Preliminary Official Statement is, except for the Permitted Omissions, deemed final within the meaning of Rule 15c2-12, and the information therein is accurate and complete except for the Permitted Omissions.

IN WITNESS WHEREOF, I have hereunto set my hand as of _____, 2008.

CITY OF LODI

By: _____
City Manager

PRELIMINARY OFFICIAL STATEMENT DATED JULY 3, 2008

NEW ISSUE - FULL BOOK-ENTRY ONLY

Ratings: (See "Ratings")

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. In the further opinion of Special Counsel, such interest is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Special Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates. See "TAX MATTERS."

\$65,000,000'

Electric System Revenue Certificates of Participation
2008 Series A

Evidencing the Proportionate Interests of the Owners Thereof
in Certain Installment Payments to be Made by the
CITY OF LODI, CALIFORNIA

Dated Date of Delivery

Due: July 1, as set forth on the **Inside** front cover

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page not otherwise defined shall have the meanings set forth herein.

The Electric System Revenue Certificates of Participation, 2008 Series A (the "2008 Certificates") evidence the proportionate interests of the Owners thereof in the Installment Payments (the "Installment Payments") to be made by the City of Lodi, California (the "City"), under the terms of the Installment Purchase Contract, dated as of July 1, 2008 (the "2008 Contract"), between the City and the Lodi Public Improvement Corporation (the "Corporation"). Pursuant to the 2008 Contract, the City will make the Installment Payments to the Corporation from Net Revenues of the City's Electric System.

The 2008 Certificates are being sold to provide funds to: (i) currently refund the outstanding \$46,760,000 principal amount of Electric System Revenue Certificates of Participation 2002 Series A Variable Rate Certificates (the "Refunded 2002 Certificates") of the City; (ii) pay costs of delivery of the 2008 Certificates; (iii) fund certain costs relating to termination of a swap agreement relating to the Refunded 2002 Certificates; (iv) purchase a financial guaranty insurance policy for the 2008 Certificates; and (v) fund a reserve fund for the 2008 Certificates. See "PLAN OF FINANCE" herein.

The 2008 Certificates will be delivered in fully registered form and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the 2008 Certificates. Purchasers of interests in the 2008 Certificates will not receive securities certificates representing their interests in the 2008 Certificates purchased. Principal, premium, if any, and interest evidenced by the 2008 Certificates are payable by The Bank of New York Trust Company, N.A., as Trustee, to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC participants for subsequent disbursement to the beneficial owners of the 2008 Certificates, as described herein.

The 2008 Certificates initially will be delivered in denominations of \$5,000 principal amount or any integral multiple thereof. Interest represented by the 2008 Certificates is payable semiannually on January 1 and July 1 of each year, commencing January 1, 2009.

The scheduled payment of principal of and interest on the 2008 Certificates, when due, will be guaranteed under a financial guaranty insurance policy to be issued concurrently with the delivery of the 2008 Certificates by Assured Guaranty Corp.

[INSERT ASSURED GUARANTY LOGO]

The obligation of the City to make the Installment Payments is a special obligation of the City payable solely from Net Revenues of the City's Electric System, as provided in the 2008 Contract. The general fund of the City is not liable for and neither the faith and credit nor the taxing power of the City is pledged to the payment of the Installment Payments. The City may incur other obligations payable from Net Revenues on a parity with the Installment Payments in accordance with the 2008 Contract, as described herein.

The 2008 Certificates are offered when, as and if executed and delivered to the Underwriter, subject to the approval of legality by Orrick, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Sacramento, California, and for the City by the City Attorney of the City of Lodi. It is expected that the 2008 Certificates in definitive form will be available for delivery in New York, New York through the DTC book-entry system on or about July 24, 2008.

STONE & YOUNGBERG

Dated: July __, 2008

MATURITY SCHEDULE

\$_____ Series 2008 Certificates

Certificate Payment Date <u>(July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>	CUSIP <u>Number</u>
--	-------------------------	----------------------	--------------	------------------------

\$_____ ~~Term~~ Series 2008 Certificates due July 1, _____ Price: _____%; CUSIP Number:

CITY OF LODI, CALIFORNIA

City Council

JoAnne Mounce, Mayor
Lany D. Hansen, Mayor **Pro Tempore**
Susan Hitchcock, Councilmember
Bob **Johnson**, Councilmember
Phil Katzakian, Councilmember

City Officials

Blair King, City Manager
James Krueger, Deputy City Manager/Finance Director/Treasurer
Randi Johl, City Clerk
D. Stephen Schwahauer, City Attorney
George Morrow, Director of Electric Utility

LODI PUBLIC IMPROVEMENT CORPORATION

Board of Directors

JoAnne Mounce
Larry D. Hansen
James Krueger
Randi Johl

SPECIAL SERVICES

Special Counsel

Orrick, Herrington & Sutcliffe **LLP**
Los Angeles, California

Financial Advisor

Lamont Financial Services Corporation
Walnut Creek, California

Trustee

The Bank of New York Trust Company, N.A.
Los Angeles, California

Independent Auditors

Macias, Gini & O'Connell
Sacramento, California

No dealer, broker, salesperson or other person has been authorized by the City or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2008 Certificates by a person in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

Statements contained in this Official Statement that include forecasts, estimates or matters of opinion, whether or not expressly stated as such, are intended solely as such and are not to be construed as representations of fact. The information set forth herein has been furnished by the City and by other sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as representations by the Underwriter. The information and expressions of opinions herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall create, under any circumstances, any implication that there has been no change in the affairs of the City since the date hereof. This Official Statement, including **any** supplement or amendment hereto, is intended to be deposited with one or more repositories.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and **as** part of, its responsibilities to investors under the federal securities laws **as** applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or **completeness** of such information.

IN CONNECTION WITH THE OFFERING OF THE 2008 CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT MAY STABILIZE OR MAINTAIN THE MARKET PRICE OF SUCH 2008 CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

CAUTIONARY STATEMENTS REGARDING
FORWARD-LOOKING STATEMENTS IN
THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information under the captions "CITY'S OPERATIONS SINCE DEREGULATION OF THE CALIFORNIA ENERGY MARKETS," "RECENT DEVELOPMENTS IN THE CALIFORNIA ENERGY MARKETS" and "RATE REGULATION" in this Official Statement.

The achievement of certain **results** or other **expectations** contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The City does not plan to issue any updates or revisions to those forward-looking statements if or when the events, conditions or circumstances on which such statements are based occur.

The Insurer makes no representation with respect to the 2008 Certificates or the advisability of investing in the 2008 Certificates. In addition, the Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer supplied by the Insurer and presented under the heading "CERTIFICATE INSURANCE and in "APPENDIX G - SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY".

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OFFICIAL STATEMENT

Relating to

\$65,000,000*

Electric System Revenue Certificates of Participation
2008 Series A
Evidencing the Proportionate Interests **of** the Owners Thereof
in Certain **Installment** Payments **to** be Made by the
CITY OF LODI, CALIFORNIA

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the 2008 Certificates to potential investors is made only by means of the entire Official Statement. Terms used in this Introduction and not otherwise defined shall have the respective meanings assigned to them elsewhere in this Official Statement. See “APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—CERTAIN DEFINITIONS” herein.

Purpose

The purpose of this Official Statement (which includes the cover page and the appendices attached hereto) is to provide certain information concerning the sale and delivery of Electric System Revenue Certificates of Participation 2008 Series A (the “2008 Certificates”), in the aggregate principal amount of \$65,000,000*. The 2008 Certificates evidence the proportionate interests of the registered owners (the “Owners”) thereof in Installment Payments (the “Installment Payments”) to be made by the City of Lodi, California (the “City”), under the terms of an Installment Purchase Contract, dated as of July 1, 2008 (the “2008 Contract”), between the City and the Lodi Public Improvement Corporation (the “Corporation”). Pursuant to the 2008 Contract, the City will make the Installment Payments to the Corporation from Net Revenues of the City’s electric system (the “Electric System”).

The 2008 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of July 1, 2008 (the “Trust Agreement”), by and between the Corporation and The Bank of New York Trust Company, N.A., as trustee thereunder (the “Trustee”). The 2008 Certificates are being sold to provide funds to: (i) currently refund the outstanding \$46,760,000 principal amount of Electric System Revenue Certificates of Participation 2002 Series A Variable Rate Certificates (the “Refunded 2002 certificates”); (ii) pay costs of delivery of the 2008 Certificates, as more fully described herein; (iii) fund certain costs relating to termination of the swap agreement relating to the Refunded 2002 Certificates; (iv) purchase a financial guaranty insurance policy for the 2008 Certificates; and (v) fund a reserve fund for the 2008 Certificates. See “PLAN OF FINANCE herein.

Security and Sources of Payment for the 2008 Certificates; Parity Obligations

The obligation of the City to **make** the Installment Payments pursuant to the 2008 Contract is a special obligation payable solely from and secured solely by Net Revenues of the City’s Electric System. The City may incur additional obligations payable from Net Revenues on a parity with the

* Preliminary; **subject to change.**

Installment Payments (“Parity Obligations”), subject to the terms and conditions set forth in the 2008 Contract.

The City has previously entered into an Installment Purchase Contract, dated as of January 1, 2002, between the City and the Corporation (the “2002 Contract”), in connection with the execution and delivery of the Refunded 2002 Certificates, City’s Electric System Revenue Certificates of Participation, 2002 Series C (currently outstanding in the principal amount of \$8,985,000)(the 2002 Series C certificates”) and Electric System Revenue Certificates of Participation, 2002 Series D (currently outstanding in the principal amount of \$19,765,000)(the “2002 Series D Certificates”). The 2002 Contract constitutes a Parity Obligation.

The general fund of the City is not liable for, and neither the faith **and** credit nor the taxing power of the City is pledged **to**, the payment **of** the Installment Payments.

Rate Covenant

Pursuant to the 2008 Contract, the City will at all times fix, prescribe and collect rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year which will be at least sufficient to yield (a) Adjusted Annual Revenues for such Fiscal Year at least equal to the sum of the following for such Fiscal Year: (i) Adjusted Maintenance and Operation Costs; (ii) Adjusted Annual Debt Service with respect to the Installment Payments and Parity Obligations, and (iii) all other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from the Electric Revenue Fund, including all amounts owed to any issuer of a surety bond credited to a debt service reserve for Parity Obligations then in effect; and (b) Adjusted Annual Net Revenues for such Fiscal Year equal to at least one hundred twenty percent (120%) of Adjusted Annual Debt Service with respect to the Installment Payments and Parity Obligations for such Fiscal Year. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2008 Certificates — Rate Covenant” herein.

Reserve Fund

A Reserve Fund is established with the Trustee pursuant to the Trust Agreement in an amount equal to the Reserve Requirement (as defined in the Trust Agreement). The City intends to satisfy the Reserve Requirement with a portion of the proceeds of the Series 2008 Certificates. Amounts on deposit in the Reserve Fund will be applied to pay principal of and/or interest on the 2008 Certificates in the event amounts on deposit in the Debt Service Fund are insufficient therefor. See “SECURITY AND SOURCES OF PAYMENT FOR THE 2008 Certificates — Reserve Fund” herein.

Certificate Insurance

Payment of the principal of and interest evidenced by the 2008 Certificates when due (not including acceleration or prepayments, except scheduled mandatory sinking fund prepayment) will be insured by a financial guaranty insurance policy (the “Policy”) to be issued by Assured Guaranty Corp. (the “Insurer”) simultaneously with the delivery of the 2008 Certificates. See “CERTIFICATE INSURANCE herein.

Other Matters

This Official Statement speaks only as of its date, and the information and expressions of opinions contained herein are subject to change without notice. Neither delivery of this Official

Statement nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the Electric System since the date hereof.

The summaries of and references to documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and each such summary and reference is qualified in its entirety by reference to each document, statute, report, or instrument. The capitalization of any word not conventionally capitalized or otherwise defined herein indicates that such word is defined in a particular agreement or other document and, as used herein, has the meaning given it in such agreement or document. See “APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS herein.

Copies of the Trust Agreement and the 2008 Contract are available for inspection at the offices of the City Clerk in Lodi, California, and will be available *from* the Trustee upon request and payment of duplication costs.

PLAN OF FINANCE

The 2008 Certificates are being executed and delivered to provide funds to: (i) currently refund the Refunded 2002 Certificates; (ii) pay costs of delivery of the 2008 Certificates; (iii) fund certain costs relating to termination of the swap agreement relating to the Refunded 2002 Certificates; (iv) purchase a financial guaranty insurance policy for the 2008 Certificates; and (v) fund a reserve fund for the 2008 Certificates.

Refunding of 2002 Certificates

A portion of the proceeds of the 2008 Certificates, together with other available moneys, will be used to currently refund all of the Refunded 2002 Certificates on July 24, 2008.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of the 2008 Certificates (excluding accrued interest) are as follows:

Sources

Par Amount of the 2008 Certificates	\$
Transfer from Refunded 2002 Certificates Funds and Accounts	
Total Sources	\$

Uses

Payment of Refunded 2002 Certificates	\$
Underwriter's Discount	
Swap Termination Payment	
Deposit to Reserve Account	
Costs of Issuance ⁽¹⁾	
Total	\$

⁽¹⁾ Includes legal, financing, Trustee's fees, printing costs, rating agency fees, financial guaranty insurance policy premiums and other costs incurred in connection with the delivery of the 2008 Certificates.

THE 2008 CERTIFICATES

General

The 2008 Certificates will be prepared as one fully registered certificate for each maturity and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2008 Certificates. Principal, prepayment premium, if any, and interest evidenced by the 2008 Certificates are payable by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to its DTC Participants for subsequent disbursement to the beneficial owners of the 2008 Certificates. See "APPENDIX C—BOOK-ENTRY ONLY SYSTEM herein.

Prepayment of the 2008 Certificates

Optional Prepayment. The 2008 Certificates with a Certificate Payment Date of July 1, ____ and thereafter shall be subject to prepayment from prepayments of Installment Payments made at the option of the City from any source of funds in whole or in part on any date at a prepayment price equal to the principal amount of the 2008 Certificates to be prepaid plus accrued but unpaid interest thereon to the prepayment date, without premium.

Mandatory Sinking Fund Prepayment. The 2008 Certificates with a Certificate Payment Date of July 1, ____ shall be subject to mandatory prepayment prior to their Certificate Payment Date, in part, on July 1, ____, and on each July 1 thereafter at a prepayment price equal to the principal amount of the 2008 Certificates to be prepaid plus accrued but unpaid interest thereon to the prepayment date, without premium. Such 2008 Certificates will be prepaid in the principal amounts and upon the dates as follows:

***Mandatory Prepayment Date
(July 1)***

***Principal
Amount***

[†] *Final Maturity.*

Selection of Certificates for Prepayment.

If less than all Outstanding Certificates are to be prepaid at any one time, the City may determine the principal amount of Certificates of each maturity to be prepaid and if less than all the Outstanding Certificates of a maturity are to be prepaid at any one time, the Trustee shall select the portions of the 2008 Certificates of such maturity to be prepaid by lot in a manner which the Trustee deems to be fair. For purposes of selecting Certificates to be prepaid, Certificates shall be deemed to be composed of five thousand dollar (\$5,000) multiples and any such multiple of principal amount as may be separately prepaid, subject to the requirement that the unpaid balance of any Certificate prepaid in part must be in an Authorized Denomination.

Notice of Prepayment.

Notice of prepayment of Certificates shall be mailed by the Trustee, not less than thirty (30) nor more than sixty (60) days prior to the prepayment date to (i) the respective Owners of the 2008 Certificates designated for prepayment at their addresses appearing in the Certificate Register, (ii) the Securities Depositories and (iii) one or more Information Services. Each notice of prepayment shall state the date of such notice, the prepayment price, the place of prepayment (including the name and appropriate address of the Trustee), the CUSIP number (if any) of the 2008 Certificates to be prepaid, and, if less than all of the 2008 Certificates of any one maturity are to be prepaid, the distinctive certificate numbers of the 2008 Certificates of such maturity to be prepaid and, in the case of Certificates to be prepaid in part only, the respective portions of the principal amount thereof to be prepaid. Each such notice shall also state that subject to the receipt by the Trustee of the prepayment price as described below, on said date there will become due and payable on each of said Certificates the prepayment price thereof and in the case of a Certificate to be prepaid in part only, the specified portion of the principal amount thereof to be prepaid, and shall require that such 2008 Certificates be then surrendered at the address of the Trustee specified in the prepayment notice. Failure to receive such notice shall not invalidate any of the proceedings taken in connection with such prepayment nor affect the sufficiency of such prepayment.

If notice of prepayment has been duly given as aforesaid and money for the payment of prepayment price of the 2008 Certificates called for prepayment is held by the Trustee, then on the prepayment date designated in such notice the 2008 Certificates (or portions thereof) so called for prepayment shall become due and payable, and from and after the prepayment date so designated interest on such 2008 Certificates shall cease to accrue, such 2008 Certificates (or portions thereof) shall cease to be entitled to any benefit or security under the Trust Agreement and the Owners of such 2008 Certificates shall have no rights in respect thereof except to receive payment of the prepayment price thereof from the moneys held by the Trustee for such purpose, and such moneys will be pledged to such payment.

In the event that a notice of prepayment is being given for an optional prepayment of Certificates when the funds required for such prepayment are not delivered to the Trustee at or before the time notice of prepayment is given to the Owners of the 2008 Certificates to be prepaid, such notice of prepayment may state, at the direction of the City, that the prepayment is conditioned on the delivery to the Trustee, on or before the prepayment date, of moneys equal to the prepayment price of the 2008 Certificates (or portions thereof) to be prepaid and shall further state, at the direction of the City, that in the event that such refunding securities are not issued and delivered, such prepayment notice shall be automatically rescinded and shall be null and void.

DEBT SERVICE PAYMENT SCHEDULE

Set forth below is a schedule of Installment Payments for the period ending July 1, in each of the years indicated:

Annual Period Ending July 1	2002 Series C Total	2002 Series D Total	<u>2008 Series A Installment Payments</u>			Total
			Principal	Interest	Total	
7/1/2009	\$2,817,900	\$1,477,601				
7/1/2010	2,820,100	1,517,319				
7/1/2011	2,818,300	1,583,190				
7/1/2012	1,417,500	4,152,690				
7/1/2013		5,518,053				
7/1/2014		5,488,178				
7/1/2015		5,467,738				
7/1/2016						
7/1/2017						
7/1/2018						
7/1/2019						
7/1/2020						
7/1/2021						
7/1/2022						
7/1/2023						
7/1/2024						
7/1/2025						
7/1/2026						
7/1/2027						
7/1/2028						
7/1/2029						
7/1/2030						
7/1/2031						
7/1/2032						
Total	\$9,873,800	\$25,204,767				

Source: The City

SECURITY AND SOURCES OF PAYMENT FOR THE 2008 CERTIFICATES

Installment Payments

The 2008 Certificates evidence the proportionate interests of the Owners in the Installment Payments to be made by the City pursuant to the 2008 Contract. **The** 2008 Contract provides that the City's obligation to pay the Installment Payments, subject to the provisions of the 2008 Contract relating to defeasance, are absolute and unconditional, and, until such time as the Installment

Payments shall have been paid in full (or provision for the payment thereof shall have been made pursuant to the 2008 Contract), the City will not discontinue or suspend any Installment Payments required to be paid by the City under the 2008 Contract when due, whether or not the Electric System or any part thereof is completed, is operating or operable, or its use is suspended, interfered with, reduced, curtailed or terminated in whole or in part, and such Installment Payments are not subject to reduction, whether by offset, abatement or otherwise, and are not conditional upon the performance or nonperformance by any party to any agreement for any cause whatsoever. Notwithstanding anything contained in the 2008 Contract, however, the City is not required to advance any moneys derived from any source of income other than the Net Revenues of the Electric System for the payment ~~of~~ the Installment Payments or for the performance of any agreements or covenants required to be performed by the City contained in the 2008 Contract.

As discussed under the headings “THE ELECTRIC SYSTEM—Power Supply Resources” and “—Outstanding Obligations,” the City participates in certain joint powers agencies. Obligations of the City under its financing agreements with these joint powers agencies constitute Maintenance and Operations Costs of the Electric System payable prior to the Installment Payments.

The City has from time to time entered into certain power purchase agreements. Generally, the City has entered into such power purchase agreements solely or primarily for use within its own system. However, from time to time the City has entered into purchases for resale. The City’s obligations under such agreements also constitute Maintenance and Operation Costs payable prior to the Installment Payments. See “THE ELECTRIC SYSTEM – Wholesale Power Trading” herein.

Pursuant to the Trust Agreement, the Corporation transfers, assigns and sets over to the Trustee, subject to the provisions of the Trust Agreement, all of the Installment Payments and any and all rights and privileges the Corporation has under the 2008 Contract (other than its rights to indemnification), including without limitation the right to collect and receive directly all of the Installment Payments and the right to enforce the provisions of the 2008 Contract. The Trust Agreement provides that Installment Payments collected or received by the Corporation shall be deemed to be held and to have been collected or received by the Corporation, as the agent of the Trustee, and shall forthwith be paid by the Corporation to the Trustee. The Trustee also shall, subject to the provisions of the Trust Agreement, take all steps, actions and proceedings required to be taken, as provided in any opinion of counsel delivered to the Trustee, reasonably necessary to maintain in force for the benefit of the Owners of the 2008 Certificates the Trustee’s rights in and priority to the following security granted to it for the payment of the 2008 Certificates: the Trustee’s rights, as assignee of the Installment Payments and as beneficiary of any other rights to security for the 2008 Certificates, that the Trustee may receive in the future.

The Trust Agreement provides that all of the Installment Payments received by the Trustee shall be deposited immediately in the Debt Service Fund. All of the Installment Payments shall be held in trust by the Trustee for the benefit of the Owners of the 2008 Certificates but shall be disbursed, allocated and applied solely for the uses and purposes provided in the Trust Agreement.

Defined Terms

For the purposes of the Trust Agreement and the 2008 Contract, the following terms are given the following meanings:

“Available Reserves” is defined to mean, as of any date of calculation, the amount of unrestricted funds in the Electric Revenue Fund designated as “Available Reserves” for purposes of the 2008 Contract by the City and then available to pay Maintenance and Operation Costs and/or Annual Debt Service, which may include transfers to the Electric Revenue Fund from the Rate

Stabilization Fund or any other fund that is legally available for deposit in the Electric Revenue Fund.

“City Transfers” is defined to mean any payments from Revenues to the City for payments-in-lieu of taxes, transfers to the General Fund or similar payments but shall not include any item constituting a Maintenance and Operation Cost of the Electric System.

“Electric System” is defined to mean the electric utility system of the City, comprising all electric generation, transmission and distribution facilities and all general plant facilities related thereto now owned by the City and all other properties, structures or works for the generation, transmission or distribution of electricity later acquired by the City, including all contractual rights for electricity or the transmission thereof, together with all additions, betterments, extensions or improvements to such facilities, properties, structures or works or any part thereof, or any additional contract rights for electricity or the transmission thereof, later acquired.

“Maintenance and Operation Costs” is defined to mean the costs paid or incurred by the City for maintaining and operating the Electric System, including but not limited to (a) all costs of electric energy and power generated or purchased by the City for resale, costs of transmission, fuel supply and water supply in connection with the foregoing, (b) all expenses of management and repair and other expenses necessary to maintain and preserve the Electric System in good repair and working order, (c) all administrative costs of the City that are charged directly or apportioned to the operation of the Electric System, such as salaries and wages of employees, overhead, taxes and insurance premiums, (d) all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the 2008 Contract or any resolution authorizing the execution of the 2008 Contract or the issuance of any Parity Obligations or of such Parity Obligations, such as compensation, reimbursement and indemnification of the trustee, remarketing agent or surety costs for the 2008 Contract or Parity Obligations, letter of credit fees relating to the Installment Payments or Parity Obligations, fees and expenses of Independent Certified Public Accountants and Independent Engineers, (e) all amounts required to be paid by the City under contracts with a joint powers agency for the purchase of capacity, energy, transmission capability or any other commodity or service in connection with the foregoing, which contract requires payments to be made by the City thereunder to be treated as maintenance and operation costs of the Electric System, (f) all deposits to be made to the Rebate Fund pursuant to the Tax Certificate and all deposits in comparable accounts established with respect to Parity Obligations required to be deposited pursuant to the proceedings authorizing such Parity Obligations, and (g) any other cost or expense which, in accordance with Generally Accepted Accounting Principles, is to be treated as a cost of operating or maintaining the Electric System but excluding depreciation, replacement and obsolescence charges or reserves therefor and amortization of intangibles and City Transfers. See “Take-or-Pay Obligations” below.

“Net Revenues” is defined to mean, for any period of time in question, the Revenues during such period less the Maintenance and Operation Costs during such period.

“Revenues” is defined to mean all gross income and revenue received or receivable by the City from the ownership or operation of the Electric System, including all rates and charges received by the City for the electric service and other services and facilities furnished, made available or provided by the Electric System, all proceeds of insurance covering business interruption loss relating to the Electric System and all other income and revenue howsoever derived by the City from the ownership or operation of the Electric System or otherwise arising from the Electric System, including all Payment Agreement Receipts and all income from the deposit or investment of any money in the Electric Revenue Fund, but excluding proceeds of taxes, refundable deposits made to establish credit and advances or contributions in aid of construction and line extension fees, and Receipts Pledged to Above-Market Costs.

For definitions of additional terms used in the 2008 Contract, see “APPENDIX D--- SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—CERTAIN DEFINITIONS” herein.

Pledge of Net Revenues

Pursuant to the 2008 Contract, subject to the application thereof on the terms and conditions and for the purposes provided in the 2008 Contract, all Net Revenues of the Electric System and all moneys on deposit in the Electric Revenue Fund are irrevocably pledged to the payment of the Installment Payments and all other payments under the 2008 Contract, which pledge shall be on a parity with any pledge of Net Revenues or of moneys in the Electric Revenue Fund securing Parity Obligations. The 2008 Contract provides that such pledge constitutes a first pledge of and charge and lien upon the Net Revenues of the Electric System and moneys in the Electric Revenue Fund for the payment of the amounts due with respect to the 2008 Contract and all other Parity Obligations in accordance with the terms of the 2008 Contract and such Parity Obligations.

Rate Covenant

Pursuant to the 2008 Contract, the City will at all times **fix**, prescribe and collect rates and charges for the services, facilities and electricity of the Electric System during each Fiscal Year which will be at least sufficient to yield (a) Adjusted Annual Revenues for such Fiscal Year at least equal to the sum of the following for such Fiscal Year: (i) Adjusted Maintenance and Operation Costs; (ii) Adjusted Annual Debt Service with respect to the Installment Payments and Parity Obligations, and (iii) all other payments required to meet any other obligations of the City which are charges, liens or encumbrances upon or payable from the Electric Revenue Fund, including all amounts owed to any issuer of a surety bond credited to a debt service reserve for Parity Obligations then in effect; and (b) Adjusted Annual Net Revenues for such Fiscal Year equal **to** at least one hundred twenty percent (120%) of Adjusted Annual Debt Service with respect to the Installment Payments and Parity Obligations for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary but may not reduce the rates and charges then in effect unless the Adjusted Annual Revenues and the Adjusted Annual Net Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements described in the preceding sentence.

Reserve Fund

Pursuant to the Trust Agreement, the Trustee will establish and maintain the Reserve Fund so long as any 2008 Certificates remain outstanding. The Trustee will deposit in the Reserve Fund the amounts required to be deposited therein pursuant to the ~~Trust~~ Agreement and will apply moneys in the Reserve Fund in accordance with the Trust Agreement.

In the event that the Trustee has transferred money from the Reserve Fund to the Interest Fund or Principal Fund in accordance with the Trust Agreement, upon receipt of moneys from the City to increase the balance in the Reserve Fund to the Reserve Requirement, the Trustee will deposit such moneys in the Reserve Fund. If the amount credited to the Reserve Fund is in excess of the Reserve Requirement, such excess amount shall be transferred to the Debt Service Fund.

“Reserve Requirement” means with respect to the 2008 Certificates, as of any date of determination, the least of (a) ten percent (10%) of the initial offering price to the public of the 2008 Certificates as determined under the Code, or (b) the greatest Annual Debt Service with respect to the Installment Payments in any Fiscal Year during the period commencing with the Fiscal Year in which the determination is being made and terminating with the last Fiscal Year in which any Installment Payment is due, or (c) one hundred twenty-five percent (125%) of the sum of the Annual

Debt Service with respect to the Installment Payments for all Fiscal Years during the period commencing with the Fiscal Year in which such calculation is made (or if appropriate, the first full Fiscal Year following the execution and delivery of the 2008 Certificates) and terminating with the last Fiscal Year in which any Installment Payment is due, divided by the number of such Fiscal Years, all as computed and determined by the City and specified in Writing to the Trustee.

Amounts on deposit in the Reserve Fund will be applied to pay principal of and/or interest on the 2008 Certificates in the event amounts on deposit in the Debt Service Fund are insufficient therefor.

Application of Revenues

The City agrees and covenants in the 2008 Contract that all Revenues it receives will be deposited when and as received in the Electric Revenue Fund, which the City established and which the City agrees to maintain separate and apart from other moneys of the City *so* long as any Installment Payments remain unpaid. The 2008 Contract provides that all money on deposit in the Electric Revenue Fund shall be applied, transferred and used only as provided below and in the following order of priority, with any discrepancy in any required deposit to be rectified before making any deposit of a lower priority:

(i) To the payment of the Maintenance and Operation Costs then due and payable and the establishment of a reasonable contingency reserve for Maintenance and Operation costs.

(ii) On or before the fifth Business Day before each Principal Payment Date and each Interest Payment Date, a sum equal to the Installment Payment becoming due and payable on such date shall be transferred to the Debt Service Fund. On or before each date (other than a Principal Payment Date **or** an Interest Payment Date) on which an Installment Payment becomes due and payable hereunder (whether by prepayment, acceleration or otherwise), a sum equal to the Installment Payment becoming due and payable on such date shall be transferred to the Debt Service Fund. Notwithstanding the foregoing provisions of this subsection (ii), no such deposits to the Debt Service Fund need be made by the City from the Electric Revenue Fund to the extent the Trustee then holds in the Debt Service Fund sufficient available funds to pay the Installment Payment to be paid with such deposit. On or before each due date therefor under the instruments and proceedings pursuant to which Parity Obligations have been issued or incurred, the sum **or** sums required to be paid or deposited in a debt service or other payment fund or account with respect to principal, premium, if any, and interest on Parity Obligations (or in the case of Parity Payment Agreements, the scheduled Net Payments due); provided that all transfers and payments to be made pursuant to this subsection (ii) shall be made without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(iii) On each Principal Payment Date and Interest Payment Date, that **sum**, if any, necessary to restore the Reserve Fund to an amount equal to the Reserve Fund Requirement. To the extent required by the instruments and proceedings pursuant to which Parity Obligations have been issued or incurred, to any applicable debt service reserve fund or account for any Parity Obligations for which a separate reserve has been established in accordance with the 2008 Contract, the sum or sums, if any, equal to the amount required to be deposited therein in accordance ~~with~~ the terms of such Parity Obligations (other than interest on draws on debt service reserve fund sureties or financial guarantees for such debt service reserves); provided that all transfers and payments to be made pursuant to this subsection (iii) shall be made without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(iv) To the extent required by the instrument and proceedings pursuant to which Parity Obligations have been issued or incurred, to the payment when due of any interest then due on amounts drawn under any debt service reserve fund surety or guarantee for any Parity Obligations for which a separate debt service reserve has been established; provided that all transfers and payments to be made pursuant to this subsection (iv) shall be made without preference or priority, and in the event of any insufficiency of such moneys ratably without any discrimination or preference.

(v) To the payment when due of any Termination Payment payable by the City upon the termination of a transaction under a Parity Payment Agreement before its scheduled termination date.

(vi) To the payment of any Subordinate Obligations in accordance with the instruments and proceedings pursuant to which such Subordinate Obligations have been issued.

(vii) To the making of City Transfers

(viii) To any other lawful purpose of the City in connection with the Electric System.

Notwithstanding anything in the 2008 Contract to the contrary no moneys in the Electric Revenue Fund shall be applied in any Fiscal Year pursuant to subsection (vi), (vii) or, Section (viii) above unless amounts remaining on deposit in the Electric Revenue Fund shall be sufficient to make the remaining transfers required to be made in such Fiscal Year pursuant to subsection (i) through (v) above; provided, however that moneys within the Electric Revenue Fund may be applied in any Fiscal Year pursuant to clause (viii) above to fund the expansion of the facilities or business of the Electric System if the City provides the Trustee with a Certificate of the City to the effect that the City estimates that the amounts to be available within the Electric Revenue Fund, taking into account such application; shall be sufficient to make when due the transfers to be made in such Fiscal Year pursuant to subsection (i) through (v) above.

Take-or-Pay Obligations

The City has entered into certain power sales contracts for the purchase of energy and certain other agreements for the payment of costs of certain projects in which it is participating, including agreements with the joint powers agencies in which it participates, the Transmission Agency of Northern California ("TANC") and the Northern California Power Agency ("NCPA"). The City's obligations under such agreements constitute a portion of the Maintenance and Operation Costs payable prior to the Installment Payments under the 2008 Contract. Agreements with the joint powers agencies in which the City participates are on a "take-or-pay" **basis, which requires payments** to be made whether or not projects are completed or operable or whether output from such projects is suspended, interrupted or terminated. The City could enter into additional contracts whose obligations constitute Maintenance and Operation Costs of the City, subject to the rate covenant described above. See "THE ELECTRIC SYSTEM—Outstanding Obligations" herein. Certain agreements with TANC and NCPA contain "step-up" provisions obligating non-defaulting participants to assume a share of the obligations and rights of a defaulting participant, if any. The City's (and any non-defaulting participant's) maximum step-up under those agreements, however, is 25% of the City's original obligation for the project. The City's participation and share of debt service obligation (without giving effect to any "step up" provisions) for each of the joint powers agency projects in which it participates are shown on the table titled "Outstanding Debt of Joint Powers Agencies" under "THE ELECTRIC SYSTEM—Outstanding Obligations" herein.

Outstanding Parity Obligations

Other than the Refunded 2002 Certificates, the outstanding Series 2002 C Certificates and the outstanding Series 2002 D Certificates, the City currently has no outstanding obligations payable from Net Revenues of the Electric System.

Additional Parity Obligations

The City may at any time execute contracts or issue other obligations, the payments of which are payable from the Net Revenues on a parity with the Installment Payments (collectively, "Parity Obligations"), but only subject to the specific conditions set forth in the 2008 Contract, which conditions are precedent to the execution of any such Parity Obligations, including the condition that either:

(i) during any twelve (12) consecutive calendar months out of the immediately preceding eighteen (18) calendar month period, the Adjusted Annual Net Revenues were at least equal to one hundred twenty percent (120%) of the ~~Maximum~~ Annual Debt Service for all Outstanding Installment Payments and all Outstanding Parity Obligations plus the Parity Obligation proposed to be executed; or

(ii) as evidenced by a Certificate of the City or an Engineer's Report on file with the City, the projected Adjusted Annual Net Revenues during each of the succeeding five (5) complete Fiscal Years beginning with the first Fiscal Year following issuance of such Parity Obligation in which interest is not capitalized in whole from the proceeds of Parity Obligations, is at least equal to one hundred twenty percent (120%) of the Maximum Annual Debt Service for all Outstanding Installment Payments and all Outstanding Parity Obligations plus the Parity Obligation proposed to be executed;

Notwithstanding the foregoing provisions, the provisions above shall not limit the ability of the City to execute any Parity Obligations at any time to refund any Outstanding Installment Payments or Outstanding Parity Obligations, in each case which results in a net present value savings to the City, inclusive of all costs of such refunding. See "APPENDIXD—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—INSTALLMENT PURCHASE CONTRACT—Parity Obligations and Subordinate Obligations" herein.

The City may incur Subordinate Obligations without meeting any of the tests set forth in the 2008 Contract relating to Parity Obligations.

Limitation on Remedies

In addition to the limitations on remedies contained in the Trust Agreement and the 2008 Contract, the rights and remedies provided in the Trust Agreement and the 2008 Contract may be limited by and are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases.

CERTIFICATE INSURANCE

The following information has been furnished by the Insurer for use in this Official Statement. Such information has not been independently confirmed or verified by the City. No representation is made herein by the City as to the accuracy or adequacy of such information subsequent to the date hereof or that the information contained and incorporated herein by reference

is correct. Reference is made to Appendix G for a specimen of the Insurer's *financial* guaranty insurance policy (the "Policy").

The Financial Guaranty Insurance Policy

The Insurer has made a commitment to issue the Policy relating to the 2008 Certificates, effective as of the date of execution and delivery of such 2008 Certificates. Under the terms of the Policy, the Insurer will unconditionally and irrevocably guarantee to pay that portion of principal of and interest on the 2008 Certificates that becomes Due for Payment but shall be unpaid by reason of Nonpayment (the "Insured Payments"). Insured Payments shall not include any additional amounts owing by the City solely as a result of the failure by the Trustee to pay such amount when due and payable, including without limitation any such additional amounts as may be attributable to penalties or to interest accruing at a default rate, to amounts payable in respect of indemnification, or to any other additional amounts payable by the Trustee by reason of such failure. The Policy is non-cancelable for any reason, including without limitation the non-payment of premium.

"Due for Payment" means, when referring to the principal with respect to the 2008 Certificates, the stated maturity date thereof, or the date on which such 2008 Certificates shall have been duly called for mandatory sinking fund prepayment, and does not refer to any earlier date on which payment is due by reason of a call for prepayment (other than by mandatory sinking fund prepayment), acceleration or other advancement of maturity (unless the Insurer in its sole discretion elects to make any principal payment, in whole or in part, on such earlier date) and, when referring to interest with respect to the 2008 Certificates, means the stated dates for payment of interest.

"Nonpayment" means the failure of the City to have provided sufficient funds to the Trustee for payment in full of all principal and interest Due for Payment with respect to the 2008 Certificates. It is further understood that the term Nonpayment in respect of a 2008 Certificate also includes any amount previously distributed to the Holder (as such term is defined in the Policy) of such 2008 Certificate in respect of any Insured Payment by or on behalf of the City, which amount has been recovered from such Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction that such payment constitutes an avoidable preference with respect to such Holder. Nonpayment does not include nonpayment of principal or interest caused by the failure of the Trustee to pay such amount when due and payable.

The Insurer will pay each portion of an Insured Payment that is Due for Payment and unpaid by reason of Nonpayment, on the later to occur of (i) the date such principal or interest becomes Due for Payment, or (ii) the business day next following the day on which the Insurer shall have received a completed notice of Nonpayment therefor in accordance with the terms of the Policy.

The Insurer shall be fully subrogated to the **rights** of the holders of the 2008 Certificates to receive payments in respect of the Insured Payments to the extent of any payment by the Insurer under the Policy.

The Policy is not covered by any insurance or guaranty fund established under New York, California, Connecticut or Florida insurance law.

The Insurer

The Insurer is a Maryland-domiciled insurance company regulated by the Maryland Insurance Administration and licensed to conduct ~~financial~~ **guaranty** insurance business in all fifty states of the United States, the District of Columbia and Puerto Rico. The Insurer commenced operations in 1988. The Insurer is a wholly owned, indirect subsidiary of Assured Guaranty Ltd.

("AGL"), a Bermuda-based holding company whose shares are publicly traded and **are** listed on the New York Stock Exchange under the symbol "**AGO.**" AGL, through its operating subsidiaries, provides credit enhancement products to the **U.S.** and global public finance, structured finance and mortgage markets. Neither AGL nor any of its shareholders is obligated to pay any debts of the Insurer or any claims under any insurance policy issued by the Insurer.

The Insurer is subject to insurance laws and regulations in Maryland and in New York (and in other jurisdictions in which it is licensed) that, among other things, (i) limit the Insurer's business to financial guaranty insurance and related lines, (ii) prescribe minimum solvency requirements, including capital and **surplus** requirements, (iii) limit classes and concentrations of investments, (iv) regulate the amount of both the aggregate and individual risks that may be insured, (v) limit the payment of dividends by the Insurer, (vi) require the maintenance of contingency reserves, and (vii) govern changes in control and transactions among affiliates. Certain state laws to which the Insurer is subject also require the approval of policy rates and forms.

The Insurer's financial strength is rated "AAA" by Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P"), "AAA" by Fitch, Inc. ("Fitch") and "Aaa" by Moody's Investors Service, Inc. ("Moody's"). Each rating of the Insurer should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. *The* above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of any security guaranteed by the Insurer. The Insurer does not guaranty the market price of the securities it guarantees, nor does it guaranty that the ratings on such securities will not be revised or withdrawn.

Capitalization of the Insurer

As of March 31, 2008, the Insurer had total admitted assets of \$1,518,398,730 (unaudited), total liabilities of \$1,138,285,708 (unaudited), total surplus of \$380,113,022 (unaudited) and total statutory capital (surplus plus contingency reserves) of \$1,001,533,924 (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 2007, the Insurer had total admitted assets of \$1,361,538,502 (audited), total liabilities of \$961,967,238 (audited), total surplus of \$399,571,264 (audited) and total statutory capital (surplus plus contingency reserves) of \$982,045,695 (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. The Maryland Insurance Administration recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Maryland Insurance Code, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Maryland Insurance Administration to financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") in making such determinations.

Incorporation of Certain Documents by Reference

The portions of the following documents relating to the Insurer are hereby incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

The Annual Report on Form 10-K of **AGL** for the fiscal year ended December 31, 2007 (which was filed by AGL with the Securities and Exchange Commission (the "SEC") on February 29, 2008);

The Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008 (which was filed by AGL with the SEC on May 9, 2008); and

The Current Reports on Form 8-K filed by AGL with the SEC, as they relate to the **Insurer**.

All consolidated financial statements of the Insurer and all other information relating to the Insurer included in documents filed by AGL with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, subsequent to the date of this Official Statement and prior to the termination of the offering of the 2008 Certificates shall be deemed to be incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such consolidated financial statements.

Any statement contained in a document incorporated herein by reference or contained herein under the heading "CERTIFICATE INSURANCE-The Insurer" shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document which is incorporated by reference herein also modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Copies of the consolidated financial statements of the Insurer incorporated by reference herein and of the statutory financial statements filed by the Insurer with the Maryland Insurance Administration are available upon request by contacting the Insurer at 1325 Avenue of the Americas, New York, New York 10019 or by calling the Insurer at (212) 974-0100. In addition, the information regarding the Insurer that is incorporated by reference in this Official Statement that has been filed by AGL with the SEC is available to the public over the Internet at the SEC's web site at <http://www.sec.gov> and at AGL's web site at <http://www.assuredguaranty.com>, from the SEC's Public Reference Room at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, and at the office of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

The Insurer makes no representation with respect to the 2008 Certificates or the advisability of investing in the 2008 Certificates. In addition, the Insurer has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the Insurer supplied by the Insurer and presented under the heading "CERTIFICATE INSURANCE".

THE ELECTRIC SYSTEM

History

The City is a general law city in the State of California, was incorporated in 1906, and is located in the San Joaquin Valley of California, 35 miles south of the state capital of Sacramento and 90 miles east of San Francisco. The City's boundaries encompass approximately 13.92 square miles. The City has owned and operated its electric distribution system since 1910. In order to obtain generator resources to serve its customers, the City joined the Northern California Power Agency ("NCPA") in 1968. The City participates in several resources developed by NCPA such as geothermal, combustion turbine, transmission and hydroelectric projects. In 1982, the City signed a power purchase contract with the Western Area Power Administration ("Western"). The City also became a member of the Transmission Agency of Northern California ("TANC") in 1984 and participates in the California—Oregon Transmission Project (the "COTP"). In addition, NCPA has developed electric dispatch and transmission capabilities that contribute to the City's electric utility services. Ten NCPA members (the City, Alameda, Biggs, Gndley, Healdsburg, Lompoc, Palo Alto,

Port of Oakland, Ukiah and Plumas-Sierra, collectively the “Ten NCPA Pool Members”), operate under principles of a pooling agreement (the “Principles”). The Principles provide that each of the Ten NCPA Pool Members will subject its resources, including Western contract resources and its COTP transmission resources, to the pooled operation by NCPA. In turn, NCPA will dispatch all resources to provide the total electric power requirements of the Ten NCPA Pool Members at the lowest reasonable cost consistent with reliability, safety, expedition, prevention of adverse impacts on neighboring utility systems, and all applicable laws and governmental rules, regulations and orders.

Service Area, Distribution System & Interconnections

The Electric System serves the entire area of the City (approximately 13.92 square miles). The City owns facilities for the distribution of electric power within the city limits of the City, which includes approximately 13 miles of 60 kV overhead power lines, approximately 288 miles of 12 kV distribution lines (approximately 54% of which is underground) and four substations. During the fiscal year 2006-2007, the Electric System served 28,889 customers, comprised of 24,931 residential customers, 3,678 commercial/industrial customers and 280 other customers. During July 2006, the City reached an all-time, historical high peak demand of 140.4 MW.

The City’s Electric System is interconnected with the system of PG&E (three 60 kV lines). The City’s system experiences approximately 33 minutes of outage time per year for the average customer (System Average Interruption Duration Index (SAIDI), per the calendar year 2007 System reliability report data).

Organization and Management

The City provides electric utility service through its Electric Utility Department. The legal responsibilities and powers of the Electric Utility Department, including the establishment of rates and charges, are exercised through the five-member City Council. The members of the City Council are elected City-wide for staggered four year terms. The City Electric Utility Department is under the direction of the Electric Utility Director who is appointed by the City Manager.

The City Electric Utility Department’s main office is located at 1331 South Ham Lane, Lodi, California 95242, (209) 333-6762. For more information about the City and its Electric System, contact George F. Morrow, Electric Utility Director, at the above address and telephone number.

Management of the Electric System is as follows:

George F. Morrow, Electric Utility Director, joined the City in January **2006** and has over **30** years of private/public electric utility experience. Mr. Morrow came to Lodi after serving as Electric Utility Director of Independence, MO Power & Light for 11 years. Previous industry experience included serving as Assistant General Manager (Resource Planning, Conservation, Rates and Financial Planning) with the Pasadena, CA Water and Power for six years and ten years in R&D, power supply planning and contracts with El Paso Electric Company. Mr. Morrow has BSEE and MBA degrees from the University of Texas at El Paso.

Kenneth Weisel, Manager, Electric Services, joined Lodi in April 2007 and has over 35 years of private/public electric utility related experience. Previous experience includes 11 years with the Turlock Irrigation District, rising to Assistant General Manager of Electric Resources. He was General Manager of the Missouri Joint Municipal Electric Utility Commission for three years and Electric Utility Director of the City of Roseville for 8 years. Mr. Weisel was also Assistant General Manager of the Alameda Bureau of Electricity (now Alameda Power & Telecom) and worked as an

engineer with San Diego Gas & Electric Company and Stone & Webster Engineering Corporation. Mr. Weisel is a Professional Engineer (Chemical Engineering and Electrical Engineering) in California and a Registered Professional Engineer in Massachusetts. He received Bachelor and Master of Science degrees in Chemical Engineering from the Massachusetts Institute of Technology.

Demetrio Bucaneg, Manager, Engineering and Operations, joined Lodi in 2004 and has over 28 years of private/public electric utility related experience. Mr. Bucaneg was previously employed by the California Energy Commission, the California Department of Water Resources, U.S. Windpower, Enron Wind Corporation and the national electric utility of the Philippines. Mr. Bucaneg is a registered professional engineer in California. He has BSEE and MBA degrees from St. Louis University and University of Phoenix respectively.

Employees

As of June 30, 2007, approximately 49 City employees (42 full-time, 7 contract/temporary) were assigned specifically to the Electric Utility Department. Substantially all **of** the non-management City personnel assigned to the Electric Utility Department are represented by the International Brotherhood of Electrical Workers, Union 1245 (“IBEW”). The current Memorandum of Understanding with the IBEW expires on December 31, 2011. There have been no strikes or other union work stoppages at the City, including the Electric Utility Department.

Retirement benefits to the City full-time employees, including those assigned to the Electric Utility Department, are provided through the City’s participation in the California Public Employees Retirement System (“PERS”). The City’s Contribution Rate is determined by periodic actuarial calculations based on the benefit formula and the number of employees and their respective salary schedules. As of June 30, 2007, the City had no unfunded pension benefit obligation. Retirement benefits to City employees, in the form of pension benefits provided through the City’s participation in PERS and limited post-retirement health care benefits, **are** described in Note 10 to the City’s General Purpose Financial Statements for the Year Ended June 30, 2007 included in Appendix B to this Official Statement.

Insurance

The City’s Electric System boiler and machinery operations are insured by Hartford Steam Boiler for up to \$21.25 million per occurrence. The City, including the Electric System, is self-insured for general liability for up to \$500,000 and has pooled excess coverage through the California Joint Powers Risk Management Authority for **up to \$40** million per occurrence. The City is self-insured for workers’ compensation for up to \$250,000 and has pooled excess coverage through the Local Agency Workers’ Compensation Excess Authority for up to **the** statutory limit. **See Notes** to General Purpose Financial Statements for the Year Ended June 30, 2007 included in APPENDIX B to this Official Statement.

Investment Policy

The moneys in the Electric Revenue Fund, into which all revenues of the Electric System are initially deposited, are required to be invested in certain Permitted Investments, as provided under the 2008 Contract, subject to the City’s Investment Policy described herein. See “APPENDIX D—SUMMARY OF PRINCIPAL LEGAL DOCUMENTS” herein. Pursuant to the Investment Policy, the City strives to maintain a level of investment of all idle funds, less required reserves, as near 100% as possible, through daily and projected cash flow determinations. The City’s cash management system is designed to monitor and forecast expenditures and revenue accurately in order to enable the City to invest funds to the fullest extent possible.

Idle cash management and investment transactions are the responsibility of the Finance Director/City Treasurer. The Investment Policy, as adopted by the City Council on October 1, 2003, permits investment in the following: U.S. Treasury obligations (bills, notes and bonds); U.S. Government Agency securities and instrumentalities; bankers acceptances; certificates of deposit; negotiable certificates of deposit; commercial paper; California State Local Agency Investment Fund; passbook deposits; mutual funds; and medium term notes. The Investment Policy provides that safety is given the highest priority, followed by liquidity and yield. Investments are selected to achieve a "market average" rate of return, or the annual rate of return on the one-year U.S. Treasury Bill.

The Investment Policy may be changed at any time at the discretion of the City Council (subject to the State of California law provisions relating to authorized investments) and as the California Government Code is amended. There can be no assurance, therefore, that the State of California law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such State law or the Investment Policy, or that the objectives of the City with respect to investments will not change. All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Trust Agreement and the Installment Purchase Agreement, or other amounts held by the City, could have a material adverse effect on the City's finances.

Power Supply Resources

The City does not independently own any generation assets but, in addition to power purchased from Western and others, has an ownership-like entitlement to a percentage of the capacity and energy output and attributes of certain NCPA generation projects, as more fully described below. For each of the NCPA projects in which the City participates, the City is obligated to pay on an unconditional take-or-pay basis, its entitlement share of the debt service on NCPA bonds issued for such project, as well as its share of the operation and maintenance expenses of such projects. The City also obtains power supply resources through contractual arrangements with various entities including the Western Area Power Administration, Seattle City Light and ConocoPhillips.

The following table sets forth information concerning the City's power supply resources and the energy supplied by each during the fiscal year ended June 30, 2007. Descriptions of the power supply resources also follow.

**TABLE 1
CITY OF LODI
ELECTRIC UTILITY DEPARTMENT
POWER SUPPLY RESOURCES⁽¹⁾**

<i>Source</i>	<i>Capacity Available (MW)</i>	<i>Actual Energy (MWh)</i>	<i>% of Total Energy</i>
Purchased Power⁽²⁾:			
Western		16,723	3.2%
NCPA			
Geothermal Project	12	103,268	19.7
Hydroelectric Project	25	39,145	7.5
Combustion Turbine Project No. 1	43	3,543	0.7
Multiple Capital Facilities, Unit One (STIG)	20	24,230	4.6
Contracts, Exchanges and Bilaterals	50	337,146	64.3
Total	151	524,053⁽³⁾	100.0%
Total Capacity and Energy Sold at Wholesale		48,042	
City System Requirement for Retail Load	140	476,011	

⁽¹⁾ Information for fiscal year ended June 30, 2007. Columns may not add due to rounding.

⁽²⁾ Entitlements, firm allocations and contract amounts. Units at Backbone Output.

⁽³⁾ Includes native load, exchanges and wholesale market sales. Includes line losses.

Source: City of Lodi.

In the fiscal year ended June 30, 2007, the City's net average cost of power delivered to the City Electric System was **9.5** cents per kWh.

Western Purchased Power. Lodi has an agreement with Western, which expires December 31, 2024, to purchase a base resource of **0.49049%** of Central Valley Project output. Energy associated with the base resource from Western is scheduled by **NCPA** for Lodi's benefit.

NCPA Geothermal Project No. 3. NCPA has developed a geothermal project (the "Geothermal Project") located on federal land in certain areas of Sonoma and Lake Counties, California (the "Geysers Area"). In addition to the geothermal leasehold, wells, gathering system and related facilities, the Geothermal Project consists of two electric generating stations (Plant 1 and Plant 2), each with **two 55 MW** (nameplate rating) turbine generator units utilizing low pressure, low temperature geothermal steam, associated electrical, mechanical and control facilities, a heat dissipation system, a steam gathering system, a transmission tapline and other related facilities. Geothermal steam for the project is derived from the geothermal property, which includes wellpads, access roads, steam wells and reinjection wells.

Steam for NCPA's geothermal plants comes from lands in the Geysers Area, which are leased by NCPA from the federal government. NCPA operates these steam-supply areas. Operation of the geothermal plants at high generation levels, together with high steam usage by others in the same area, initially resulted in a decline in the steam production from the steam wells at a rate greater than expected.

Based upon current operating protocols and forecasted operations, NCPA expects average annual generation and peak capacity to decrease slowly from the current level of 1,016 GWh/year and 121MW peak.

NCPA financed the Geothermal Project with Geothermal Project Number 3 Revenue Bonds, of which \$52.3 million (excluding approximately \$118.1 million which has been economically defeased) were outstanding as of June 30, 2008, with a final maturity of July 1, 2010. Debt service in FY 2009 and FY 2010 is \$27.8 million and \$29.2 million, respectively.

The City has purchased from NCPA, pursuant to power sales contracts, a 10.28% entitlement share in the capacity of NCPA's Geothermal Project and is obligated to pay 10.28% of the debt service and proportionate share of operating costs associated with such plants. For the fiscal year ended June 30, 2007, the City received 103,268MWh of electric energy from the NCPA Geothermal Project at an average cost of \$0.0555/kWh.

In order to secure transmission and other support services for the Geothermal Project, NCPA has undertaken a Geysers transmission project (the "Geysers Transmission Project") with the Geysers Project participants including Lodi. The Geysers Transmission Project includes (i) an ownership interest in PG&E's 230 kV line from Castle Rock Junction in Sonoma County to the Lakeville Substation (the "Castle Rock to Lakeville Line"), (ii) additional firm transmission rights in the Castle Rock to Lakeville Line and (iii) the Central Dispatch Facility.

NCPA financed the Geysers Transmission Project through the issuance of Transmission Project Number One Revenue Bonds, of which \$2.5 million were outstanding as of June 30, 2008. The debt service on these bonds is approximately \$915,000 annually with a final maturity of August 15, 2010. The City is obligated to pay 15.2% of the debt service and operating costs associated with such transmission.

NCPA Hydroelectric Project. The NCPA Hydroelectric Project, with the exception of certain transmission facilities, is owned by the Calaveras County Water District ("CCWD") and is licensed by the Federal Energy Regulatory Commission ("FERC") pursuant to a 50 year License No. 2409 to CCWD. Pursuant to a Power Purchase Contract, NCPA (i) is entitled to the electric output of the Hydroelectric Project until 2031, (ii) managed the construction of the Hydroelectric Project and (iii) operates the generating and recreational facilities of the Hydroelectric Project. Under a separate FERC-issued license with an expiration date coterminous with the Project No. 2409 license (Project No. 11197), NCPA holds the license and owns the 230 kV Collierville-Bellota and 21 kV Spicer Meadow-Cabbage Patch transmission lines from Project No. 2409. After the present FERC license **expires in the year 2031**, NCPA has the option to continue to purchase Hydroelectric Project capacity and energy during a subsequent license renewal period. The purchase option includes all capacity and energy which is surplus to CCWD's needs for power within the boundaries of Calaveras County.

The reservoirs for the Upper Utica, Utica and Angels projects (which were subsequently acquired by NCPA and constitute part of the Hydroelectric Project) are licensed by FERC under a 30 year license. The license was issued by FERC on September 3, 2003.

As with any hydroelectric generation project, the operation of the Hydroelectric Project is determined by consideration of its storage capacity and available stream flows. The Hydroelectric Project has a 111 year record (1895 to 2006) of streamflows. Based upon the record, the Hydroelectric Project's average production is estimated to be 550 GWh annually. Using the driest period of record (1976-1977), the Hydroelectric Project is estimated to produce 180 GWh annually. The Hydroelectric Project is optimized, together with NCPA's other resources, to economically meet the load requirements of the respective project participants. The load-following characteristics of the

project give participants a great degree of flexibility in meeting the hourly and daily variations which occur in their loads. The Hydroelectric Project generation for the fiscal year ended June 30, 2007, a dry year, was approximately 385 GWh, compared with 914 GWh for the prior fiscal year.

NCPA financed the Hydroelectric Project through the issuance of Hydroelectric Project Number One Revenue Bonds, of which approximately \$476.0 million was outstanding as of June 30, 2008. The debt service on these bonds continues to the year 2032 and annual debt service ranges from \$23.0 million to \$38.9 million. The City's share in the Hydroelectric Project and in such bonds is 10.37%.

NCPA Combustion Turbine Project No. One. NCPA has developed its Combustion Turbine Project Number One (the "NCPA Combustion Turbine Project") consisting of five combustion turbine units, each nominally rated 25 MW. Two units are located in each of the cities of Roseville and Alameda, and one unit is located in the City of Lodi.

The NCPA Combustion Turbine Project provides capacity (i) to be operated during the peak load period in order to reduce the need for purchasing partial requirements from alternate sources and (ii) to be used to meet capacity reserve requirements. Such reserve capacity is operated only during emergency periods when other resources are unexpectedly out of service. In addition, capacity and energy from the Combustion Turbine Project are also sold to others upon request. The combustion turbine units have economically fulfilled their planned function of reliably providing reserve and peaking power. To the extent permitted by air quality restrictions, the Combustion Turbine Project also provides energy for sale.

NCPA financed the NCPA Combustion Turbine Project through the issuance of NCPA Combustion Turbine Project Number One Revenue Bonds, of which \$11.6 million were outstanding as of June 30, 2008. The debt service on these bonds is approximately \$4.3 million annually, with a final maturity of August 15, 2010. The City is obligated to pay 8.03% of the debt service and operating costs associated with this project.

The City has purchased from NCPA, pursuant to a power sales contract, a 34.78% entitlement share in NCPA's Combustion Turbine Project No. One. As is typical of reserve and peaking resources, the average cost per kWh of energy delivered to participants in the NCPA Combustion Turbine Project is comparatively expensive. For the fiscal year ended June 30, 2007, the City received 3,543 MWh of electric energy and 521 MW-months of capacity reserves from the NCPA Combustion Turbine Project at a total cost of \$2.89 million. The City determined it did not require all of the peaking capacity in this project and in October 2007, the City completed a transfer of approximately 34 MW of its rights in the NCPA Combustion Turbine Project to the City of Roseville.

Lodi Steam Injected Gas Turbine Project: In 1992, a power generating station was constructed by NCPA in the City of Lodi adjacent to the City's Wastewater Treatment Plant. The generating station consists of a single natural gas-fired steam injected gas turbine generator ("STIG"), and required auxiliary and electrical interconnection systems. NCPA financed this project through a portion of the proceeds of \$152.3 aggregate principal amount of Multiple Capital Facilities Revenue Bonds issued in 1992, of which \$64.2 million remained outstanding on June 30, 2008, with debt service continuing through August 2025. Annual debt service ranges from \$4.0 to 5.9 million.

The STIG unit is owned and operated by NCPA, and the capacity and energy thereof is purchased by the City and the Cities of Alameda, Lompoc and Roseville. The City has a 39.50% participation share in STIG. NCPA has entered into arrangements on behalf of the Project

Participants to provide for a gas supply for STIG. NCPA has estimated the average cost of capacity from STIG to be \$13.02/kW-mo. for fiscal year 2007-08.

The STIG unit is economically dispatched to meet the project participants' load, to meet other NCPA Members' load or to sell power to third parties depending on natural gas prices and electric energy prices. The unit directly connects to PG&E's 230kV transmission system. Transmission services are supplied through the NCPA-PG&E Interconnection Agreement, the California Independent System Operator ("ISO") Tariff, and the CAISO-NCPA Metered Subsystem Aggregator Agreement.

Seattle City tight Exchange Contract. NCPA, on behalf of the City and other members, negotiated a seasonal exchange agreement with Seattle City Light for 60MW of summer capacity and energy and a return of 46-MW of capacity and energy in the winter. Deliveries under the agreement began June 1, 1995 and will terminate no earlier than May 31, 2016. The City has a 40% participation in such contract.

TANC California-Oregon Transmission Project. The City is a member, together with thirteen other northern California cities and districts and one rural electric cooperative (associate member) of the Transmission Agency of Northern California (TANC). TANC, together with Western, three California districts and authorities and PG&E (collectively, the "COTP Participants") own the California-Oregon Transmission Project ("COTP"), a 339-mile long, 1,600 MW, 500 kV transmission line project between southern Oregon and central California. The COTP was placed in service on March 24, 1993, at a cost of approximately \$430 million.

TANC financed its interest in the COTP through the issuance of California-Oregon Transmission Project Revenue Bonds and commercial paper notes, of which approximately \$357.0 million principal amount of bonds and \$86.6 million principal amount of commercial paper notes were outstanding as of May 31, 2008.

Pursuant to Project Agreement No. 3 for the COTP (the "TANC Agreement"), TANC has agreed to provide to the City and 12 other members of TANC (the "TANC Members") a participation percentage of TANC's entitlement of COTP transfer capability. In return, each TANC Member has severally agreed to pay TANC a corresponding percentage of TANC's share of the COTP construction costs, including debt service on TANC's outstanding revenue bonds, commercial paper and other obligations issued by TANC to finance its ownership share of the COTP. A TANC Member's obligations to make payments to TANC are not dependent upon the operation of the COTP and are not subject to reduction. Upon an unremedied default by one TANC Member in making a payment required under the TANC Agreement, the nondefaulting TANC Members are required to increase pro-rata their participation percentage by the amount of the defaulting TANC Member's entitlement share, provided that no such increase can result in a greater than 25% increase in the participation percentage of the nondefaulting TANC Members.

Pursuant to the TANC Agreement, the City is obligated to pay 1.9201% of TANC's COTP operating and maintenance expenses and receives approximately 26MW of COTP transfer capability on an unconditional take-or-pay basis. The City anticipates that its share of financial operating and maintenance expenses and dues for the COTP will be approximately \$1,035,000 in FY09. The City's share of TANC's bonds and commercial paper is 1.91% and 1.56%, respectively.

TANC, along with the other COI owners, is sponsoring WECC regional planning and rating increase processes for an upgrade of the COI from 4,800 MW to not less than 5,100 MW through the addition of series capacitors at either Captain Jack or Olinda Substations, along with shunt capacitors at Tracy Substation. In addition, the PacifiCorp-owned series capacitors at Malin on the Malin-

Round Mountain #2 500-kV line will be replaced. These new facilities **are** anticipated to be in service by the end of 2008 and expected to provide at least a 300 MW upgrade to the COI a portion of which would accrue to the City. The cost of this project is estimated to be approximately \$35 million.

Tesla-Midway Transmission Service. The southern physical terminus of the COTP is near PG&E's Tesla Substation near Tracy, CA. The COTP is connected to Western's Tracy and Olinda Substations. PG&E provides TANC with transmission service between its Tesla Substation and the Midway Substation under an agreement known as the South of Tesla Principles. The City's share of Tesla—Midway Service is 6.21 MW. The City has utilized its full allocation of Tesla—Midway transmission service for firm and non-firm power transactions.

Conoco-Phillips. Effective July 1, 2007, City entered into a three-year purchase of 25 MW of baseload energy from Conoco-Phillips. This around-the-clock power was purchased at a fixed price.

Future Power Supply Resources

Western Geothermal, Inc. Project. In 2008, NCPA on behalf of its members executed an agreement with Western Geothermal, Inc. to purchase 25 to 32 MW of geothermal energy for 20 years from the Geysers Geothermal Field in Northern California at a fixed price. The project is scheduled to be placed in service in early 2010. The City has a 4.84% right to the project's output. Such amount is expected to range from 1.2 to 1.5 MW providing as much as 2% of Lodi's annual energy needs when operational.

NCPA Lodi Energy Center. Together with other NCPA members and California public agencies, the City is participating in the permitting and design of a nominal 255 MW combined-cycle power plant to be located on City land adjacent to the City's White Slough Wastewater Treatment Plant. The City's share of the project's output is 30 MW. Commercial operation is expected to commence in early 2012.

NCPA Green Pool. In January 2008, the City entered into an agreement with NCPA related to the NCPA Green Power Project ("NGPP"). This project involves the joint purchase of renewable energy resources on behalf of eleven participating NCPA members. Through NGPP, the City is exploring proposals for up to 5 average MW (43,800 MWh/year) of green energy to be provided by a variety of suppliers. No commitments have been made to date.

Other Power Supply Resources; Open Position. Based upon its current forecasted sales and resource mix, the City believes its spot and short-term market purchases will be less than 25% of total energy requirements for the next two years.

In addition, due to the long lead time in acquiring certain resources, including renewable resources, the City, through NCPA and individually on its own behalf, continues to consider additional projects that might be included in the resource **mix**.

The City established a risk management policy in January 2006. Consistent with the policy, the City **has** established goals related to closing "open" power positions (i.e., power needs not contracted for) in the first, second and third following years to provide for orderly stabilization of future power costs.

TABLE 2
OPEN POWER POSITIONS

<u>Timeframe</u>	<u>Goal</u>	<u>Actual⁽¹⁾</u> <u>(as of June 1, 2008)</u>
Current Fiscal Year	5%	6%
Next Fiscal Year	10%	13%
2 nd Fiscal Year	25%	25%
3 rd Fiscal Year	50%	65%

⁽¹⁾ Actual “open” position is percentage of total expected energy needs which are not currently contracted for by the City.

Source: City of Lodi

The City plans to make additional power purchases in the future to reduce its open position in various future years.

California Energy Market Refund Dispute and Related Litigation

The investor owned utilities (IOUs”) in the State —PG&E, Edison and SDG&E—and the State of California, the California Electricity Oversight Board (“EOB”) and the California Public Utilities Commission have been pursuing claims for refunds against NCPA and other power-producing municipally owned utilities (“MOUs”), including the City. NCPA and other similarly situated MOUs sold electricity into the ISO and Power Exchange (“PX”) markets during the California energy crisis of 2000 and 2001. At that time, the price of electricity was uncharacteristically high.

In July 2001, FERC issued an order establishing an evidentiary hearing for the purpose of determining the amount of refunds, if any, due from entities selling into the ISO and PX organized spot markets from October 2, 2000 through June 20, 2001. During that time period, NCPA, on behalf of various of its members including the City, acted as both a seller and buyer in these organized markets. The FERC order was directed to sellers who were public utilities, such as the IOUs or commercial generators, and to sellers who were MOUs, such as NCPA. NCPA therefore had a potential refund liability under the terms of the FERC order. NCPA, along with other MOUs, asserted that **FERC** could not seek refunds from **MOUs**, which are **non-FERC** jurisdictional entities. The MOUs therefore sought relief from the **FERC** order in the courts. The MOU position, that **FERC has no jurisdiction to order refunds from NCPA, was upheld** by the Ninth Circuit Court of Appeals on September 6, 2005, reversing FERC’s prior order. *Bonneville Power Administration v. FERC*, 422F.3d 908 (9th Cir., 2005). The Supreme Court denied the PG&E petition for review by certiorari on December 10, 2007.

In response to the Bonneville decision, in March 2006, the IOUs and the Electricity Oversight Board (“EOB”) filed lawsuits against NCPA and other MOUs in the United States District Court. *San Diego Gas and Electric Co. v. Arizona Electric Power Cooperative, Inc.*, Eastern District of California nos. CV-S-0559 and 0592. Those lawsuits were consolidated and sought damages based upon the theory that the ISO and PX tariffs constitute a contract between the IOUs and NCPA and the contracts by implication included a term that NCPA would not charge greater rates than those determined by FERC to be just and reasonable. On March 16, 2007, the judge dismissed the lawsuits for lack of subject matter jurisdiction. The IOUs and the State have appealed the judge’s decision to the Ninth Circuit Court of Appeals, where it is currently pending.

In addition to the appeal of the federal litigation, the IOUs and the EOB also re-filed the same claims against NCPA and the MOUs in the California state court, in Los Angeles County. Pacific Gas and Electric Co. v. Arizona Electric Power Cooperative, Inc., L.A. Superior Court No. BC369141. This State court action remains pending, and is being vigorously defended by NCPA. The City does not believe that an adverse decision against NCPA in the litigation described above would materially adversely affect its ability to make Installment Payments.

Wholesale Power Trading

For a number of years, the City has used its energy and transmission resources, together with NCPA's power scheduling capabilities, to buy and sell energy in the western North American market. The principal reason for wholesale power trading is to optimize the value of the utility's assets and cost-effectively serve its retail load.

NCPA has implemented a risk management policy that is intended to set up the confines in which the trading operations undertaken on behalf of its members may occur. The objectives set forth in the policy include evaluating the creditworthiness of the counterparties, and monitoring and managing the aggregate credit exposure. Most of the sale transactions entered into by NCPA on behalf of the City are for **30** days or less. The City also adopted a Risk Management Plan and established an internal Risk Oversight Committee in January 2006 to govern its wholesale market activities.

Capital Expenditures

The budgeted capital expenditures for the Electric System for Fiscal Year 2007-08 totaled approximately \$6.5 million. The primary expenditure (**\$5.4** million) was the retrofit of the Killelea substation. Other capital improvements included line extensions for the new Blue Shield, Reynolds Ranch and Westside developments.

The City of Lodi began retrofitting the current electric metering system to implement automated radio metering and expects to retrofit more than 25% of residential customers by the end of Fiscal Year 2008-09. The City has also recently replaced line vehicles and purchased new equipment necessary to provide and maintain reliability within the system. No significant capital expenditures are planned for Fiscal Years 2008-09 and 2009-10.

Rates and Charges

The City has the exclusive jurisdiction to set electric rates within its service area. These rates are not subject to review by any state or federal agency.

The City has a number of rate tariffs that apply to its various customer groups. Residential rates incorporate five pricing tiers with increasing tier prices ranging from \$0.142 per kwh for electricity consumed in the first tier to **\$0.33** per kwh for usage in the **fifth** tier. There are six commercial/industrial rate tariffs. All commercial/industrial rates incorporate differentiated pricing for seasonal energy usage. At the higher consumption levels, the rates also provide for demand as well as energy charges. Depending on the commercial/industrial rate schedule, demand and energy charges **may** vary by time of day, by winter/summer seasons and by type of service received (i.e. secondary or primary voltage). The City also provides rate discounts for qualified medical, low income, and senior customers.

The City Council reviews Electric System rates periodically and makes adjustments as necessary.

In addition to the other elements of its rate tariffs described above, the City implemented an Energy Cost Adjustment (“ECA”) in August 2007. The purpose of the ECA is to recover market power costs due to the fluctuations in power market conditions by charging customers a supplement amount. The ECA is reviewed monthly and is either increased or decreased as market conditions dictate. In addition, in January 2008, the City implemented a Solar Surcharge of \$0.00125/kWh to fund rebates for customer-installed photovoltaic (PV) generators. The rebates are mandated by California SB 1 (see “State Legislation – Solar Power”).

The following table presents a recent history of the City’s average electric rates.

TABLE 3
CITY OF LODI
AVERAGE ELECTRIC UTILITY DEPARTMENT
RATES BY CUSTOMER CLASS“
(Dollars per kWh)

Fiscal Year ending June 30	2003	2004	2005	2006	2007
Residential	\$0.1369	\$0.1406	\$0.1396	\$0.1521	\$0.1696
Commercial/Industrial	\$0.1025	\$0.1068	\$0.1077	\$0.1161	\$0.1295

(1) Average **rate** per customer class is calculated by dividing revenues attributable to such customer class by **the** sales (stated in kWh) to such customer class

Source: City of Lodi.

The basic rates applicable for Fiscal Year 2007-08 remain unchanged from the prior fiscal year. For Fiscal Year 2007-08, the City expects that the ECA will constitute approximately an additional \$.007 per kWh on the average customer bill.

Energy Efficiency and Conservation

AB 1890 **requires** that Lodi spend approximately 2.85% of gross operating revenues per year on public benefit programs. **Lodi** currently allocates approximately \$1.7 million per **year** on such programs. In 1998, Lodi adopted a 2.50% rate increase to **fund** a portion of **such** additional expenditures, with the remaining portion being funded from current revenues. Expenditures are **used** for: (1) cost-effective demand-side management; (2) renewable energy resources and technologies; (3) research, development and demonstration programs; and (4) services for low-income electric customers, including rate subsidies. The City also provides energy education for residential and non-residential customers, including on-site and on-line energy audits, and hosts a number of programs to promote renewable energy education and outreach. As part of its education and outreach efforts, the City gives in-classroom presentations on solar and other renewable energy sources, sponsors the Lodi Solar Olympics project, and offers the Lodi Energy Smart Workshop series.

Over the past 9 years, over 15,000 Lodi utility customers have been positively impacted by one or more of the City’s public benefits programs, either in the form of a direct utility rebate or via one of its outreach and educational programs.

Customers, Sales, Revenues and Demand

The average number of customers, kWh sales, revenues derived from sales by classification of service and peak demand during the past five fiscal years are listed below.

TABLE 4
CITY OF LODI
ELECTRIC UTILITY DEPARTMENT
CUSTOMERS, SALES, REVENUES AND DEMAND

	<i>Fiscal Years Ended June 30,</i>				
	2003	2004	2005	2006	2007
Number of Customers:					
Residential	21,994	22,264	22,554	22,870	22,928
Commercial	2,666	2,639	2,617	2,637	2,605
Industrial	34	31	32	32	33
Total Customers	24,694	24,934	25,203	25,539	25,566
Kilowatt-Hour (kWh) Sales:					
Residential	145,989,025	156,572,246	153,080,272	159,540,557	159,247,195
Commercial	155,707,623	161,609,468	159,762,255	158,633,953	165,676,594
Industrial	126,153,460	127,506,441	142,395,954	141,462,582	133,816,956
Total kWh sales	427,850,108	445,688,155	455,238,481	459,637,092	458,740,745
Revenues from Sale of Energy ⁽¹⁾					
Residential	\$19,983,701	\$22,020,521	\$21,367,522	\$24,259,736	\$27,013,494
Commercial	20,561,603	22,018,890	21,936,877	23,186,847	25,313,133
Industrial	8,327,184	8,859,492	10,603,734	11,666,005	13,470,620
Total Revenues from Sale of Energy:	\$48,872,487	\$52,898,902	\$53,908,133	\$59,112,589	\$65,797,247
Peak Demand (MW)	123.9	121.0	117.5	124.3	140.4

⁽¹⁾ Excludes revenues from California Energy Commission Tax. Columns may not add due to rounding.
Source: City of Lodi.

Largest Customers

The ten largest customers of the City's Electric System in terms of kWh sales, as of June 30, 2007 accounted for 29% of total kWh sales and 21% of revenues. The single largest customer accounted for 5.8% of total kWh sales and 4% of total revenues. The ten largest customers include customers in various industries including food preparation (8.58% of total revenues); plastics manufacturing (5.87%); government/schools (5.80%); medical facilities (0.95%); and other manufacturing (0.90%).

Outstanding Obligations

As of July 2, 2008, the City had outstanding \$75,510,000 principal amount (including the Refunded 2002 Certificates as well as the accreted value of capital appreciation certificates) of Parity Obligations payable from Net Revenues. The Refunded 2002 Certificates are being refunded with the proceeds of the 2008 Certificates. See "PLAN OF FINANCE" herein.

As previously discussed, the City participates in certain joint powers agencies, including NCPA and TANC. Obligations of the City under its agreements with respect to TANC and NCPA constitute operating expenses of the electric system. Such agreements are on a "take-or-pay" basis, which requires payments to be made whether or not projects are completed or operable or whether output from such projects is suspended, interrupted or terminated. Certain of these agreements

contain “step up” provisions obligating the City to pay a share of the obligations of a defaulting participant. The City’s participation and share of debt service obligation (without giving effect to any “step up” provisions) for each of the joint powers agency projects in which it participates are shown in the following table.

TABLE 5
CITY OF LODI
ELECTRIC UTILITY DEPARTMENT
OUTSTANDING DEBT OF JOINT POWERS AGENCIES
(Dollar Amounts in Millions)

	<u>Outstanding Debt⁽¹⁾</u>	<u>Lodi’s Participation⁽²⁾</u>	<u>Lodi’s Share of Outstanding Debt</u>
NCPA			
Geothermal Project	\$ 52.3	10.28%	\$ 5.4
Transmission Project	2.5	15.20	0.4
Calaveras Hydroelectric Project	476.0	10.37	49.4
Combustion Turbine Project No. 1 ⁽³⁾	11.6	8.03	.9
Multiple Capital Facilities Project Unit One (STIG)	64.2	39.50	25.4
TANC			
Bonds	357.0	1.91	6.8
Commercial Paper Notes	86.6	1.56	1.4
TOTAL	\$1,050.2		\$ 89.7

(1) As of July 1, 2008 for NCPA and May 31, 2008 for TANC.

(2) Participation based on actual debt service obligation.

(3) After the City of Roseville acquired 33 MW of the NCPA Combustion Turbine Project No. 1 project from the City, the City’s share was reduced from 34.78% to 8.03% (although the City remains financially responsible for its full share until 2010, when the transfer to Roseville will be completed).

Source: City of Lodi.

Significant Accounting Policies

The City’s Annual Financial Report is audited by Macias, Gini & O’Connell, Sacramento, California, in accordance with generally accepted auditing standards, and contains opinions that the financial statements present fairly the financial position of the various funds maintained by the City. The reports include certain notes to the financial statements which **may** not be fully described below. Such notes constitute an integral part of the audited financial statements. Copies of these reports are available on request from the City of Lodi, Finance Department, **212 West Pine Street**, Lodi, California **95240**. See “APPENDIX B—EXCERPTS OF AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED JUNE **30**, 2007.” Governmental accounting systems are organized and operated on a fund basis. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The Electric System is accounted for as an enterprise fund. Enterprise funds are used to account for operations (i) that are financed and operated in a manner similar to private business enterprises (where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges) or (ii) where the governing body has decided that

periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The accounting policies of the City conform to generally accepted accounting principles (GAAP) as applicable to governments.

Historical and Projected Operating Results

The following table contains historic and projected operating results of the Electric System as prepared by the City. The projected operating results are based upon certain assumptions and calculations and qualifications. While the City believes these assumptions to be reasonable, the assumptions may vary significantly from actual future conditions. To the extent that actual future conditions vary from those assumed by the City, the actual results will vary from those contained in the table.

The Historic and Projected Operating Results set forth on Table 6 have been prepared by the City in accordance with the conventions of the 2002 Contract and the 2008 Contract, and differ from the audited financial statements of the City, which have been prepared in accordance with generally accepted accounting principles. The unaudited "Statistical Information" section of the City's Comprehensive Annual Financial Report for the fiscal Year Ended June 30, 2007 (contained as Appendix B hereto) contains a presentation of Revenues, Operation and Maintenance Expenses, and Debt Service Coverage which does not reflect adjustments necessary for purposes of determining compliance with the 2002 Contract and the 2008 Contract. The City intends that such presentations in future Comprehensive Annual Financial Reports will reflect the conventions of the 2002 Contract and the 2008 Contract.

TABLE 6
CITY OF LODI
ELECTRIC SYSTEM
PROJECTED SUMMARY OF OPERATING RESULTS
(Ending Fiscal Year June 30)
(In 000s)

(\$ in 000)	Actual	Actual	Actual	Actual	Actual	Estimat	Budget	Projected	
Operating	2003	2004	2005	2006	2001	2008	2009	2010	2011
Rate Revenue ¹	\$48,872	\$52,899	553,792	\$59,113	\$65,797	\$64,880	\$66,034	\$67,355	\$68,702
ECA Revenue ²						3,432	6,699	6,261	4,232
Other Revenue ^{3,9}	2,067	8,354	6,885	2,264	1,711	6,835	1,219	1,064	1,733
Total Operating	\$50,939	\$61,253	\$60,677	\$61,377	\$67,508	\$75,147	\$73,953	\$74,680	\$74,667
Purchase Power ⁴	30,772	33,286	33,069	42,839	44,665	42,334	46,179	46,314	45,038
Non-Power Costs ⁵	8,909	10,583	10,460	11,970	9,320	11,047	12,364	12,797	13,245
Total Operating	\$39,681	\$43,869	\$43,529	\$54,809	\$53,985	\$53,380	\$58,543	\$59,111	\$58,283
Net Revenue	\$11,258	\$17,384	\$17,148	\$6,568	\$13,523	\$21,761	\$15,409	\$15,569	\$16,384
Parity Debt									
2002 Bonds (Series	7,411	7,895	6,572	5,963	6,531	9,025	4,296	4,337	4,401
Proposed 2008							2,619	2,858	2,858
Total Net Debt	\$7,411	\$7,895	\$6,572	\$5,963	\$6,531	\$9,025	\$6,915	\$7,195	\$7,259
Debt Service	1.52	2.20	2.61	1.10	2.07	2.41	2.23	2.16	2.26
Remaining Revenue	\$3,847	\$9,489	\$10,576	\$605	\$6,992	\$12,742	\$8,494	\$8,374	\$9,125
Non Operating									
In-lieu Transfer to	(5,672)	(5,865)	(6,059)	(6,050)	(6,779)	(6,873)	(6,942)	(7,011)	(7,081)
Other Changes in	12	863	(2,965)	1,067					
Net Cash Flow	(1,813)	4,487	1,552	(4,378)	213	5,869	1,553	1,363	2,044
Beginning	\$3,116	\$1,303	\$5,790	\$7,342	\$3,632	\$5,470	\$13,189	\$14,741	\$16,104
Changes in GOR ⁸				668	1,625	1,850			
Net	(1,813)	4,487	1,552	(4,378)	213	5,869	1,553	1,363	2,044
Ending Operating	\$1,303	\$5,790	\$7,342	\$3,632	\$5,470	\$13,189	\$14,741	\$16,104	\$18,148

Source: City of Lodi

1. Rate Revenues projected assuming a 1.78% growth in sales for FY 09 and 2% annually thereafter.
2. Energy Cost Adjustments (ECA) estimates for FY 09 and thereafter based on power supply cost projections.
3. Consists primarily of investment income, payments from other City departments for services provided by the Electric System (including customer service) and income from sale of interests in various utility assets.
4. Purchase power cost projections based on NCPA estimates net of adjustments. Decrease in FY 11 reflects reduction in Lodi share of NCPA debt payments.
5. Non-power expenses include electric system personnel, materials and other operating costs, and payments for City administrative services (such as legal and accounting services). FY 09 amounts are projected to increase at 3.5% annually in FY 10 and FY 11.
6. Assumes refunding of Series 2002A and issuance of 2008 COPs in July 2008; 2008 debt service estimated at interest rates as of June 4, 2008 and shown net of interest earnings on reserve fund.
7. Consists of adjustments for non-cash accounting entries.
8. Consists of changes to amount of Electric System funds held as part of the NCPA general operating funds.
9. "Other Revenues" for FY 05 includes a transfer of \$4.5 million from a rate stabilization account; these funds are not reflected in operating reserve and there are no funds currently remaining in this rate stabilization account.

DEVELOPMENTS IN THE ENERGY MARKETS

State Legislation

A number of bills affecting the electric utility industry have been enacted by the California Legislature. In general, these bills provide for reduced greenhouse gas emission standards and greater investment in energy-efficient and environmentally friendly generation alternatives through more stringent renewable resource portfolio standards. The following is a brief summary of certain of these bills.

Greenhouse Gas Emissions. On June 1, 2005, the Governor signed Executive Order S-3-05, which placed an emphasis on efforts to reduce greenhouse gas emissions by establishing Statewide greenhouse gas reduction targets. The targets are: (i) a reduction to 2000 emissions levels by 2010; (ii) a reduction to 1990 levels by 2020; and (iii) a reduction to 80% below 1990 levels by 2050. The Executive Order also called for the California Environmental Protection Agency to lead a multi-agency effort to examine the impacts of climate change on California and develop strategies and mitigation plans to achieve the targets. On April 25, 2006, the Governor signed Executive Order S-06-06 which directs the State to meet a 20% biomass utilization target within the renewable generation targets of 2010 and 2020 for the contribution to greenhouse gas emission reduction.

On September 27, 2006 the Governor signed into law Assembly Bill 32 ("AB 32"), the Global Warming Solutions Act of 2006. AB 32 requires all California utilities to inventory and report greenhouse gas emissions beginning January 1, 2008 and requires the California Air Resources Board ("CARB") to adopt enforceable greenhouse gas emission limits and emission reduction measures by regulation in order to reduce greenhouse gas emissions to 1990 levels by 2020. The CARB regulations for greenhouse gas emissions limits and reduction measures will be enforceable beginning January 1, 2012.

On September 29, 2006, the Governor signed into law Senate Bill 1368 ("SB 1368"), the Greenhouse Gas Emissions Performance Standard. SB 1368 sets a greenhouse gas emission performance standard ("EPS") for baseload electric generating resources. Any new investment in baseload generation or contract for baseload generation with a term of over five years must relate to a facility with greenhouse gas emissions at or below that of a baseload, natural-gas-fired combined cycle power plant. The California Energy Commission was assigned the responsibility of establishing the EPS and associated compliance methodologies for the publicly owned utilities, including the City. The CPUC has the similar responsibility for the IOUs. The revised proposed CEC regulations were approved by the Office of Administrative Law on October 16, 2007.

The regulations promulgated by the CEC prohibit any investments in baseload generation which does not meet the EPS of 1,100 pounds of CO₂ per MWh of electricity, with limited exceptions for routine maintenance, requirements of pre-existing contractual commitments, or threat of significant financial harm.

The new legislation will impact all California electric utilities as the State begins to reduce its reliance on imported, out of state, coal fired generation. The City is committed to renewable energy, demand side management and energy efficiency; however, it is widely recognized that there will still be a large demand for traditional, baseload fossil-fueled power plants in order to meet projected load growth. Currently there is a ban in California, prohibiting the development of nuclear power plants until there is a permanent storage solution for spent fuel rods. With the effective ban on new coal

power imports under SB 1368, natural gas fired, combined cycle power plants would appear to be the primary viable option for fossil fuel based baseload power plant development absent the implementation of new technologies in connection with other resource options.

There are a number of issues yet to be sorted out surrounding the State's mandatory reduction of greenhouse gas emissions. Under AB 32, CARB has delegated responsibility to the CPUC and the CEC to come up with solutions for the electric sector in order to meet the CO₂ reduction targets identified (1990 levels by 2020). CARB has concluded that California's 1990 emissions level was 427 million metric tons of CO₂, and thus this was adopted as the 2020 target in December 2007. Business-as-usual in 2020 was identified as being 600 million metric tons of CO₂, requiring an overall reduction of 173 million metric tons of CO₂. Regulations outlining the mandatory annual reporting of greenhouse gas emissions were also adopted in December 2007, and all retail providers will be required to report the emissions from their owned assets beginning in 2009 for the 2008 year as well as emissions from in-state and out-of-state purchases and sales. All unspecified purchases must be reported as having an emissions rate of 1,100 pounds of CO₂ per MWh, in an effort to mimic SB 1368.

During 2008, CARB will be developing its formal scoping plan on "who" will be required to reduce "what" to reach the 1990 emissions goal of 427 million metric tons of CO₂. CARB will be utilizing recommendations from the CEC and CPUC in its joint proceeding and it is already being discussed that some sectors will need to reduce more than their fair share in order to achieve this statewide, multi-sector effort. The scoping plan must be adopted by January 1, 2009, and each greenhouse gas reduction method within the plan will undergo its own individual rulemaking prior to being enforceable on January 1, 2012. The scoping plan will then be revised every 5 years as CARB proceeds with its next task of designing the mechanisms for returning the state to 80% below 1990 levels by 2050 as directed in Executive Order S-3-05,

Energy Procurement and Efficiency Reporting. Senate Bill 1037, signed by the Governor on September 29, 2005, requires that each municipal electric utility, including the City, prior to procuring new energy generation resources, first acquire all available energy efficiency, demand reduction and renewable resources that are cost effective, reliable and feasible. Senate Bill 1037 also requires each municipal electric utility to report annually to its customers and to the CEC its investment in energy efficiency and demand reduction programs. Further, California Assembly Bill 2021 ("AB 2021"), signed by the Governor on September 29, 2006 requires that the publicly-owned utilities establish, report, and explain the basis of the annual energy efficiency and demand reduction targets by June 1, 2007 and every **three** years thereafter **for** a ten-year horizon. Future reporting requirements per AB 2021 will include: (i) the identification of sources of funding for the investment in energy efficiency and demand reduction programs, (ii) the methodologies and input assumptions used to determine cost-effectiveness, and (iii) the results of an independent evaluation to measure and verify energy efficiency savings and demand reduction program impacts. The information obtained from local publicly-owned utilities will be used by the CEC to present the progress made by the publicly-owned utilities on the State's goal of reducing electrical consumption by 10% in ten years and amelioration with the greenhouse gas targets presented in Executive Order S-3-05 enacted by the Governor on June 1, 2005. In addition, a report will be developed by the CEC with recommendations for improvement to assist each local publicly-owned utility in achieving cost-effective, reliable, and feasible savings in conjunction with the established targets for reduction.

In March 2008, City submitted its annual report to the CEC regarding energy efficiency program performance and cost-effectiveness in fiscal year 2007. The analyses to-date shows an

increase in energy efficiency program utilization by our customers, increased energy savings and improved cost-effectiveness of the City's programs.

Renewable Portfolio Standards. In September 2002, the California Legislature enacted and the Governor signed into law Senate Bill 1078. Senate Bill 1078 required that the IOUs adopt a Renewable Portfolio Standard ("RPS") requiring electric utilities to meet a minimum increase of 1% of retail energy sales needs each year from renewable resources until they meet a goal of 20% of their retail energy needs from renewable energy resources by the year 2017. Senate Bill 1078 also directed the State's municipal electric utilities to implement and enforce *an* RPS that recognizes the intent of the Legislature to encourage development of renewable resources, taking into consideration the impact on a utility's standard on rates, reliability, financial resources, and the goal of environmental improvement. On September 26, 2006, the Governor signed Senate Bill 107 ("SB 107") into law, which requires IOUs to have 20% of their electricity come from renewable sources by 2010 and still prescribes that the local publicly-owned utilities meet the intent of the Legislature. The City is currently in conformance with the intent of the Legislature with renewables in excess of 20% of retail sales.

Solar Power. California Senate Bill 1 ("SB 1") (originally known as the "Million Solar Roofs Initiative") was signed by the Governor on August 21, 2006. This legislation aims to have 3,000 MW of solar energy systems installed within ten years, and establishes requirements to have solar energy systems installed on 50% of new residential developments within 13 years. SB 1 requires that publicly owned utilities, including the City's Electric System, establish a program that adequately supports the efforts to install 3,000 MW of photovoltaic energy in California. In addition, the legislation established a January 1, 2008 deadline for the development of eligibility criteria for solar energy systems by the CEC in consultation with the CPUC, local publicly owned utilities, and interested members of the public. Publicly owned utilities are required to commence a solar initiative program in order to establish the funding of solar energy systems receiving ratepayer funded incentives, which offering shall commence no later than January 1, 2008. A publicly-owned utility has the choice of selecting an incentive based on the installed capacity, starting at \$2.80 per watt, or based on the energy produced by the solar energy system, measured in kilowatt-hours. Incentives may decrease at a rate of 7% per year.

The City is meeting the requirements of SB 1 by offering its customers rebates of \$2.80 per installed kW of solar in 2008, declining 7% per year, with payments of up to \$600,000 of rebates per year (\$6 million over the life of the ten year program). The City has established a Solar Surcharge of \$.00125 per kilowatt-hour to fund the costs of this program.

Impact of Developments on the City

The effect of these developments in the California energy markets on the City's Electric System cannot be fully ascertained at this time. Volatility in energy prices in California may be due to a variety of factors which affect both the supply and demand for electric energy in the western United States. These factors include, but are not limited to, the adequacy of generation resources to meet peak demands, the availability and cost of renewable energy, the impact of greenhouse gas emission legislation and regulations, fuel costs and availability, weather effects on customer demand, transmission congestion, the strength of the economy in California and surrounding states and levels of hydroelectric generation within the region (including the Pacific Northwest). This price volatility may contribute to greater volatility in the City's costs and revenues from the sale (and purchase) of electric energy and, therefore, could materially affect the financial condition of the Electric System.

OTHER FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

Energy Policy Act of 1992

The Energy Policy Act of 1992 (the “Energy Policy Act”) made fundamental changes in the federal regulation of the electric utility industry, particularly in the area of transmission access. The purpose of these changes, in part, was to bring about increased competition in the electric utility industry.

As amended by the Energy Policy Act, Sections 211, 212 and 213 of the Federal Power Act provide FERC authority, upon application by any electric utility, federal power marketing agency or other person or entity generating electric energy for sale or resale, to require another utility to provide transmission services (including any enlargement of transmission capacity necessary to provide such services) to the applicant at rates, charges, terms and conditions set by FERC based on standards and provisions in the Federal Power Act.

Federal Energy Legislation

On August 8, 2005, President Bush signed the Energy Policy Act of 2005 (“EPACT 2005”). EPACT 2005 addresses a wide array of energy matters that could affect the entire electric utility industry, including the City’s Electric System. It expands FERC’s jurisdiction to require open access transmission of municipal utilities that sell more than four million megawatt hours of energy and to order refunds under certain circumstances for municipal utilities that sell more than eight million megawatt hours of energy. (The City is not able to predict when, if ever, its sales of electricity would reach four million megawatt hours, however, it currently sells less than 500,000 MWh/year.)

EPACT 2005 requires that FERC conclude its investigation into the allegations of overcharges during the California energy crisis in 2000 and 2001 and submit a report to Congress. It also provides for mandatory reliability standards to increase system reliability and minimize blackouts, criminal penalties for manipulative energy trading practices and the repeal of the Public Utility Holding Company Act of 1935, which prohibited certain mergers and consolidations involving electric utilities. Under EPACT 2005, by February 2007 investor-owned utilities were required to offer each of its customer classes a time-based rate schedule to enable customers to manage energy use through advanced metering and communications technology. It authorizes FERC to exercise eminent domain powers to construct and operate transmission lines if FERC determines a state has unreasonably withheld approval. EPACT 2005 contains provisions designed to increase imports of liquefied natural gas and incentives to support renewable energy technologies, including a new two-year program for tax credit bonds for local governments, such as the Participants, to finance certain renewable energy facilities. EPACT 2005 also extends for 20 years the Price-Anderson Act, which concerns nuclear power liability protection, and provides incentives for the construction of new nuclear plants.

The City is unable to predict at this time the impact that EPACT 2005 will have on the operations and finances of the Electric System or the electric utility industry generally, but it is not expected to be material with respect to the City’s operation of its electric system.

Recent ISO FERC Filings

MRTU Filing. On February 9, 2006, the ISO filed with FERC its Market Redesign and Technology Upgrade (“MRTU”) tariff amendment to implement a comprehensive overhaul of the electricity markets administered by the ISO. According to the ISO, the proposed comprehensive changes include, but are not limited to, the following: perform effective congestion management in the ISO day-ahead market by enforcing all transmission constraints so as to establish feasible forward transmission schedules; create a day-ahead market for energy; automate real-time dispatch so as to balance the system and manage congestion in an optimal manner with minimal need for manual intervention; and ensure consistency across market time frames in the allocation of transmission resources to grid users and the pricing of transmission service and energy. The MRTU also is intended to ensure that the ISO has sufficient capacity available to maintain reliability on the ISO grid. The MRTU requires that all scheduling coordinators for all load-serving entities (“LSEs”) such as the City meet standards concerning forward capacity and energy procurements *to* meet their load requirements. The ISO has requested that its MRTU filing be approved by FERC, without modification, suspension or hearing, projected to go into effect in fall of 2008. On September 21, 2006, FERC issued an order conditionally accepting the ISO’s MRTU filing. At this time, the City is unable to predict the impact of MRTU on the City or the California electric utility industry generally.

Resource Adequacy Filing. In September 2005, the California Legislature enacted and the Governor signed into law Assembly Bill 380, which requires the CPUC to establish resource adequacy requirements for all LSEs within the CPUC’s jurisdiction. In addition, AB 380 requires publicly owned utilities, including the City, to meet the most recent resource adequacy standard as adopted by the Western Electricity Coordinating Council. In October 2005, the CPUC issued a decision stating that LSEs under its jurisdiction would be required, by June 2006, to demonstrate that they have acquired capacity sufficient to serve their forecast retail customer load plus a 15-17% reserve margin. The Western Electricity Coordinating Council has yet to formally adopt a resource adequacy requirement. However, consistent with current practices in the West, the City utilizes a 15% planning reserve margin when assessing the need for future resources. The ISO Tariff adds a requirement for a portion of each utility’s capacity to be Locationally Constrained Resources.

Other Factors

The electric utility industry in general has been, or in the future may be, affected by a number of other factors which could impact the financial condition and competitiveness of many electric utilities and the level of utilization of generating and transmission facilities. In addition to the factors discussed above, such factors include, among others, (a) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements other than those described above, (b) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (c) changes resulting from a national energy policy, (d) effects of competition from other electric utilities (including increased competition resulting from mergers, acquisitions, and “strategic alliances” of competing electric and natural gas utilities and from competitors transmitting less expensive electricity from much greater distances over an interconnected system) and new methods of, and new facilities for, producing low-cost electricity, (e) the repeal of certain federal statutes that would have the effect of increasing the competitiveness of many IOUs, (f) increased competition from independent power producers and marketers, brokers and federal power marketing agencies, (g) “self-generation” or “distributed generation” (such as microturbines and fuel cells) by industrial and commercial customers and others, (h) issues relating to the ability to issue tax-exempt obligations, including severe restrictions on the ability to sell to

nongovernmental entities electricity from generation projects and transmission service from transmission line projects financed with tax-exempt obligations, (i) effects of inflation on the operating and maintenance costs of an electric utility and its facilities, (j) changes from projected future load requirements, (k) increases in costs and uncertain availability of capital, (l) shifts in the availability and relative costs of different fuels (including the cost of natural gas), (m) sudden and dramatic increases in the price of energy purchased on the open market that may occur in times of high peak demand in an area of the country experiencing such high peak demand, such as has occurred in California, (n) issues relating to risk management procedures and practices with respect to, among other things, the purchase and sale of natural gas, energy and transmission capacity, (o) other legislative changes, voter initiatives, referenda and statewide propositions, (p) effects of changes in the economy, (q) effects of possible manipulation of the electric markets and (r) natural disasters or other physical calamities, including, but not limited to, earthquakes and flood. Any of these factors (as well as other factors) could have an adverse effect on the financial condition of any given electric utility, including the City's electric utility, and likely will affect individual utilities in different ways.

The City is unable to predict what impact such factors will have on the business operations and financial condition of the City's Electric System. Extensive information on the electric utility industry is available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the 2008 Certificates should obtain and review such information.

RATE REGULATION

The City sets rates, fees and charges for electric service. The authority of the City to impose and collect rates and charges for electric power and energy sold and delivered is not subject to the general regulatory jurisdiction of the CPUC, and currently neither the CPUC nor any other regulatory authority of the State of California nor FERC approves such rates and charges. It is possible that future legislative and/or regulatory changes could subject the rates and/or service area of the City to the jurisdiction of the CPUC or to other limitations or requirements.

FERC potentially could assert jurisdiction over rates of licensees of hydroelectric projects and customers of such licensees under Part I of the Federal Power Act, although it as a practical matter has not exercised or sought to exercise such jurisdiction to modify rates that would legitimately be charged. There is a question as to whether FERC has jurisdiction at all to modify rates for municipalities which are authorized to set their **own** rates. The City is a customer of a licensee of hydroelectric projects under Part I, but no jurisdictional authority to regulate their rates has been asserted by FERC. FERC and its predecessor, the Federal Power Commission (the "FPC"), have indicated on a number of occasions that municipalities and other public agencies authorized to set their **own** rates are not subject to FERC's regulatory jurisdiction over rates. ~~On~~ the other hand, the FPC in at least one decision suggested a contrary result. Even if FERC were to assert jurisdiction over the services and charges associated with such hydroelectric projects, it is unlikely that any reasonable rates and charges would be found to be contrary to applicable federal regulatory standards.

Under the Energy Policy Act, FERC has the authority, under certain circumstances and pursuant to certain procedures, to order any utility (municipal or otherwise) to provide transmission access to others at FERC-approved rates.

FERC also has jurisdiction to regulate those rates and has asserted that jurisdiction in Minnesota Municipal Power Agency v. Southern Minnesota Municipal Power Agency, 66 FERC ¶61,223 (1994) and 68 FERC 761,060 (1994). However, FERC's asserted jurisdiction over municipal rates does not extend to the rates for power sales and applies only to transmission service ordered by FERC pursuant to Section 211 of the Federal Power Act, as amended by EPACT 1992. Neither the City nor the joint powers agencies with which the City has contracted for transmission capability are providing any such transmission service to others. No assurance can be given that such service will not be requested in the future.

Although its rates are not subject to approval by any federal agency, the City is subject to certain provisions of the Public Utility Regulatory Policies Act of 1978 ("PURPA") with respect to the purchase of the output of "qualified facilities" ("QFs") at prices determined in accordance with PURPA. EPACT 2005 repeals the mandatory purchase obligation for utilities (including the City) when FERC determines that the QF has access to a competitive sales market and open access transmission. The City is operating in compliance with PURPA.

The California Energy Commission is authorized to evaluate rate policies for electric energy as related to the goals of the Energy Resources Conservation and Development Act and to make recommendations to the Governor, the Legislature and publicly owned electric utilities.

CONTINUING DISCLOSURE

The City will covenant pursuant to a Continuing Disclosure Agreement, dated as of July 1, 2008 (the "Continuing Disclosure Agreement"), by and between the City and the Trustee, to provide certain financial information and operating data relating to the City by not later than six months following the end of the City's Fiscal Year, which Fiscal Year presently ends June 30 (the "Annual Report"), commencing with the Annual Report for the 2007-08 Fiscal Year, and to provide notices of the occurrence of certain enumerated events, if material, under federal securities law. The Annual Report will be filed by the City with each nationally recognized municipal securities information repository and with the appropriate State repository, if any (collectively, the "Repositories"). The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board and the Repositories. The specific nature of the information to be contained in the Annual Report and the notices of material events is set forth in "APPENDIX E — PROPOSED FORM OF CONTINUING DISCLOSURE AGREEMENT" herein. These covenants have been made to assist the Underwriter in complying with Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"). As of the date hereof, the City has not failed to comply in any material respect in the last five years with any previous undertakings with regard to the provision of annual reports or material events notices as required by the Rule.

THE CORPORATION

The Corporation was incorporated under the Nonprofit Public Benefit Corporation Law of the State of California. The Corporation was organized as a nonprofit corporation for the purpose, among others, of assisting the City in the acquisition, construction and financing of public improvements which are of public benefit to the City. Members of the Lodi City Council, the City Treasurer and the City Clerk serve on the Board of Directors of the Corporation.

CERTAIN CONSTITUTIONAL LIMITATIONS ON TAXES AND APPROPRIATIONS

California Constitution Articles XIII A and XIII B

Article XIII A of the California Constitution limits the taxing powers of California public agencies. Article XIII A provides that the maximum ad valorem tax on real property cannot exceed one percent of the “full cash value” of the property, and effectively prohibits the levying of any other ad valorem property tax except for taxes above that level required to pay debt service on voter-approved general obligation bonds. “Full cash value” is defined as “the County Assessor’s valuation of real property as shown on the 1975-76 tax bill under ‘full cash value’ or, thereafter, the appraisal value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment.” The “full cash value” is subject to annual adjustment to reflect inflation at a rate not to exceed two percent or a reduction in the consumer price index or comparable local data, or declining property value caused by damage, destruction or other factors.

The foregoing limitation does not apply to ad valorem taxes or special assessments to pay the interest and redemption charges on any indebtedness approved by the voters before July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved by two-thirds of the votes cast by the voters voting on the proposition (or 55%, with respect to certain bonds for school facilities).

Under Article XIII B of the California Constitution, state and local government entities have an annual “appropriations limit” which limits their ability to spend certain moneys called “appropriations subject to limitation”, which consist of tax revenues, certain state subventions and certain other moneys, including user charges to the extent they exceed the costs reasonably borne by the entity in providing the service for which it is levying the charge. The City is of the opinion that the electric service and use charges imposed by the City do not exceed the costs the City reasonably bears in providing the electric service. In general terms, the “appropriations limit” is to be based on certain 1978/79 expenditures, and is to be adjusted annually to reflect changes in the consumer price index, population, and services provided by these entities. Among other provisions of Article XIII B, if an entity’s revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years.

Constitutional Changes In California

Proposition 218, a State ballot initiative known as the “Right to Vote on Taxes Act,” was approved by the voters of the State of California on November 5, 1996. Proposition 218 added Articles XIII C and XIII D to the State Constitution. Article XIII D creates additional requirements for the imposition by most local governments (including the City) of general taxes, special taxes, assessments and “property-related” fees and charges. Article XIII D explicitly exempts fees for the provision of electric service from the provisions of such article. Article XIII C expressly extends the people’s initiative power to reduce or repeal previously-authorized local taxes, assessments, and fees and charges. (In this regard, it should be noted that, after the City Council adopted increased water rates on September 21, 2005 to pay for the cleanup of perchloroethylene (PCE) and trichloroethylene (TCE) in the City’s groundwater (see “LITIGATION” below), an initiative (Measure H) was placed on the November 7, 2006 ballot to repeal the increased rates. The resolution failed, with 63.9% of the voters rejecting the proposed rate reduction and 36.1% of voters supporting it.) The terms “fees and charges” are not defined in Article XIII C, although the California Supreme Court held in Bighorn-Desert View Water Agency v. Verjil, 39 Cal. 4th 205 (2006), that the initiative power

described in Article XIIC may apply to a broader category of fees and charges than the property-related fee and charges governed by Article XIID. Moreover, in the case of Bock v. City Council of Lompoc, 109 Cal. App. 3d 43 (1980), the Court of Appeal determined that an electric rate ordinance was not subject to the same constitutional restrictions that are applied to the use of the initiative process for tax measures so as to render it an improper subject of the initiative process. The City believes that even if the electric rates of the City are subject to the initiative power, under Article XIIC or otherwise, the electorate of the City would be precluded from reducing electric rates and charges in a manner adversely affecting the payment of the 2008 Certificates by virtue of the “impairments clause” of the United States and California Constitutions.

Future Initiatives

Article XIIA, Article XIIB, and Articles XIIC and XIID, were each adopted pursuant to measures qualified for the ballot pursuant to California’s constitutional initiative process. From time to time other initiative measures could be adopted by California voters. The adoption of any such initiatives might place limitations on the ability of the City to increase revenues *or* to increase appropriations.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Special Counsel to the City (“Special Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. Special Counsel is of the further opinion that interest components evidenced by the 2008 Certificates is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Special Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Special Counsel is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the 2008 Certificates is less than the amount to be paid at maturity of such 2008 Certificates (excluding amounts stated to be interest and payable at least annually over the term of such 2008 Certificates), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the 2008 Certificates which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the 2008 Certificates is the first price at which a substantial amount of such maturity of the 2008 Certificates is sold to the public (excluding bond houses, brokers, or similar persons *or* organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2008 Certificates accrues daily over the term to maturity of such 2008 Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such 2008 Certificates to determine taxable gain or loss upon disposition (including sale, redemption, *or* payment on maturity) of such 2008 Certificates. Beneficial owners of the 2008 Certificates should consult their own tax advisors with respect to the tax consequences of ownership of 2008 Certificates with original issue discount, including the

treatment of beneficial owners who do not purchase such 2008 Certificates in the original offering to the public at the first price at which a substantial amount of such 2008 Certificates is sold to the public.

2008 Certificates purchased, whether at original execution and delivery or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium certificates") will be treated as having amortizable premium. No deduction is allowable for the amortizable premium in the case of obligations, like the Premium Certificates, the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates which is excluded from **gross** income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner's basis in a Premium Certificate, will be reduced by the amount of amortizable premium properly allocable to such beneficial owner. Beneficial owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable premium in their particular circumstances,

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest components evidenced by the 2008 Certificates will not be included in federal gross income,

Inaccuracy of these representations or failure to comply with these covenants may result in the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates being included in gross income for federal income tax purposes, possibly from the date of original execution and delivery of the 2008 Certificates. The opinion of Special Counsel assumes the accuracy of these representations and compliance with these covenants. Special Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Counsel's attention after the date of execution and delivery of the 2008 Certificates may adversely affect *the* value of, *or* the tax status of the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates. Accordingly, the opinion of Special Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Counsel is of the opinion that interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates is excluded from gross income for federal income tax purposes and is exempt ~~from~~ State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of, the 2008 Certificates **may** otherwise affect a beneficial **owner's** federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular **tax status** of the beneficial owner or the beneficial owner's other items of income or deduction. **Special Counsel** expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause the interest portion on the Installment Payments paid by the City under the 2008 Contract and received by the Owners of the 2008 Certificates, to be subject, directly or indirectly, to federal

income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the Code or court decisions may affect the market price for, or marketability of, the 2008 Certificates. Prospective purchasers of the 2008 Certificates should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Counsel expresses no opinion.

The opinion of Special Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Counsel's judgment as to the proper treatment of the 2008 Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Counsel cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Special Counsel's engagement with respect to the 2008 Certificates ends with the execution and delivery of the 2008 Certificates, and, unless separately engaged, Special Counsel is not obligated to defend the City or the beneficial owners regarding the tax-exempt status of the 2008 Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the City and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2008 Certificates for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2008 Certificates, and may cause the City or the beneficial owners to incur significant expense.

ABSENCE OF LITIGATION

No Litigation Relating to 2008 Certificates. To the knowledge of the City, there is no controversy or litigation of any nature now pending or threatened restraining or enjoining the execution and delivery of the 2008 Certificates or in any way contesting or affecting the validity of the 2008 Certificates or any proceedings of the City or the Corporation taken with respect to the execution and delivery thereof.

In addition, there is no litigation pending, or to the knowledge of the City Attorney threatened, against the City or the Corporation that, in the opinion of the City Attorney of the City, would materially adversely affect the Electric System or the sources of payment for the 2008 Certificates.

Litigation Relating to PCE, TCE. The City relies upon groundwater for providing potable water to its residents through the City's water enterprise. The City first detected the chemicals Tetrachloroethylene ("PCE" or "PERC") and Trichloroethylene ("TCE") in the groundwater in 1989. The contamination was caused by releases into five different contamination plumes over many decades by businesses in the City. The City filed, and has now fully resolved, a cost recovery action entitled "The People of the State of California and the City of Lodi v. M&P Investments, et. al" U.S. District Court for the Eastern District of California, Case No. Civs-00-2441 FCD JFM."

The settlement with respect to one of the plumes (the “Busy Bee” plume) fully funded a contract with a remediation company which is expected to fully remediate the site of the Busy Bee plume. In addition, the settlement funded a \$182,500 escrow account. In the event the contract fails to remediate the site, the escrow account can be used to cover the excess costs. The City also settled with or dismissed all potentially responsible parties in the remaining four plumes and with its own insurance carriers, raising \$35.3 million through the settlements toward the estimated \$49.5 million total cleanup cost.

However, the litigation program created several other liabilities for the City including the Lehman financing described below, as well as litigation and consultant costs. To finance the litigation, the City and the Lodi Public Improvement Corporation entered into a financing arrangement with Lehman Brothers Inc. (“Lehman”) in June 2000 (the “2000 COPs”). Lehman advanced \$15,625,000, which was repayable with interest accruing at the rate of “LIBOR” plus 20% per annum, adjusted quarterly and compounded annually. In 2004, litigation arose between Lehman and the City over the City’s obligations under the 2000 COPs. The matter settled in 2005 with the City paying Lehman \$6 million to fully discharge its obligations under the 2000 COPs.

The City also sued its former outside counsel, Envision Law Group (“**Envision**”), for the City of Lodi v. M&P Investments, et. al. litigation. Envision cross-claimed, alleging that the City owes it \$7.0 million dollars in accrued but unpaid legal fees, \$3.5 million in interest and 20% of all settlements that the City secured after Envision’s termination. A trial is set for March 2009 and the City is confident that it will prevail.

The City Council adopted a \$10.50 average increase to its rates for providing water services on September 21, 2005, to meet the meet the City’s unfunded potential liability. The increase is projected to raise \$2.7 million in additional revenue each year. The water rate increase was unsuccessfully challenged by citizen initiative in November 2006 by a vote of 63.9% to 36.1%.

After concluding the various settlements described above, the City’s unfunded liability should be about \$34.4 million, including a \$15 million contingency. The City expects that the revenue from the water rate increase described in the previous paragraph will be sufficient to cover the total unfunded potential liability. The assets or revenues of the Electric System are not available to pay such liability.

APPROVAL OF LEGALITY

The execution and delivery of the 2008 Certificates is subject to the approving opinion of Omck, Herrington & Sutcliffe LLP, Los Angeles, California, Special Counsel, substantially in the form set forth as Appendix E. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Underwriter by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, and for the City by its City Attorney.

RATINGS

Standard & Poor’s (“S&P”), and Fitch, Inc. (“Fitch”) are expected to assign the 2008 Certificates the long-term ratings of “AAA” and “AAA,” respectively with the understanding that, upon the delivery of the 2008 Certificates, a policy insuring the payment of the principal and interest

represented by the 2008 Certificates when due will be issued by the Insurer. In addition, Fitch, Inc. and S&P have assigned the underlying ratings of “___” and “A-” respectively to the 2008 Certificates. The ratings reflect only the respective views of the rating agencies, and any explanation of the significance of such ratings may be obtained only from such rating agencies as follows: Standard & Poor’s, 55 Water Street, New York, New York 10041; and Fitch, Inc., One State Street Plaza, New York, New York 10004. There is no assurance that the ratings will remain in effect for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies, or any of them, if, in their respective judgments, circumstances so warrant. Any downward revision or withdrawal of any rating may have an adverse effect on the market price of the 2008 Certificates.

FINANCIAL ADVISOR

Lamont Financial Services Corporation (the “Financial Advisor”) has assisted the City with various matters relating to the planning, structuring and delivery of the 2008 Certificates. The Financial Advisor is a financial advisory firm and is not engaged in the business of underwriting or distributing municipal securities or other public securities. The Financial Advisor assumes no responsibility for the accuracy, completeness or fairness of this Official Statement. The Financial Advisor will receive compensation from the City contingent upon the sale and delivery of the 2008 Certificates.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the 2008 Certificates at a price of \$_____. The 2008 Certificate Purchase Contract provides that the Underwriter will purchase all the 2008 Certificates, if any are purchased. The 2008 Certificates may be offered and sold by the Underwriter to certain dealers and others at prices lower than such public offering price stated on the cover page of this Official Statement, and such public offering price may be changed, from time to time, by the Underwriter.

COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Comprehensive Annual Financial Report of the City relating to the Electric System, as of June 30, 2007, is included in Appendix B to this Official Statement. The Installment Payments are special obligations of the City payable solely from the Net Revenues of the City’s Electric System. The General Purpose Financial Statements contained in the Comprehensive Annual Financial Report, have been audited by Macias, Gini & O’Connell, LLP, Sacramento, California, independent accountants (the “Independent Accountants”) as stated in their report appearing in Appendix B. No review or investigation with respect to subsequent events has been undertaken in connection with such General Purpose Financial Statements by the Independent Accountants.

EXECUTION AND DELIVERY

The execution and delivery of this Official Statement has been duly authorized by the City.

CITY OF LODI, CALIFORNIA

By: _____
City Manager

APPENDIX A

THE CITY OF LODI

The 2008 Certificates are not secured by the faith and credit or the taxing power of the City. The economic and financial data regarding the City of Lodi set forth in this section are included for information purposes only, to give a more complete description of the service area of the City's System.

General

The City of Lodi, California ("Lodi" or the "City") was incorporated as a General Law City on December 6, 1906. The City is located in the San Joaquin Valley between Stockton, 2 miles to the south, and Sacramento, 35 miles to the north, and adjacent to State Route 99. The city is located on a main line of the Union Pacific Railroad and is within 5 miles of Interstate 5. The City population is 63,632 (as of Jan. 1, 2008 estimate by the California Department of Finance) and is contained in an area of approximately 13 square miles. The City has grown steadily since incorporation in 1906 and in 2006 approved development proposals that are expected to add 3,509 dwelling units in newly annexed areas to the south and west. The City's growth is provided for in both the General Plan and the City's growth-control ordinance that allows an increase in population of 2% per year until the growth limits are reached.

The City provides a wide range of municipal services, including public safety (police, fire and graffiti abatement), public utilities services (electric, water and sewer), transportation services (streets, flood control and transit), leisure, cultural and social services (parks and recreation, library, and community center), and general government services (management, human resources administration, financial administration, building maintenance and equipment maintenance).

The City has a broad-based economy that, unlike many cities in the San Joaquin Valley, does not simply depend upon agriculture. The region's growing reputation for its fine wines has boosted its image as a tourist destination, and the city's downtown, enhanced by a \$25 million public and private investment, is a model for other mid-sized cities seeking to revitalize their downtowns. As it transitions to an entertainment, white-linen dining and wine-tasting destination, downtown Lodi serves as a hub for the 60 wineries located within a 10-mile radius. Sales at dining and drinking establishments grew by 31 percent from Fiscal Year 2002-2003 to 2006-2007. In 2006, the City partnered with three local wineries outside the city limits, allowing them to use the wastewater plant's capacity in return for opening a downtown wine-tasting room. Two other boutique wineries recently moved their winemaking operations within the City limits.

The City has a diversified industrial base, ranging from plastics industries that are industry leaders in producing pipes for irrigation and drainage, and injection-molded products, to Cottage Bakery, which sells specialty baked goods and frozen dough to customers nationwide. Still, agriculture plays a large role in the city's economy. In addition to wines, processed foods, nuts, fruit, vegetables and milk are major commodities of the Lodi area and supply the materials for local food processors and packagers. These products support the operations of General Mills and private-label cannery Pacific Coast Producers, among other companies. A variety of Lodi businesses serve the surrounding farms and vineyards with irrigation supplies and specialty machinery.

In addition, the City has a wide range of other financially sound businesses. These companies range in size from a few dozen to hundreds of employees and produce a wide variety of services and products. One of them, health insurance company Blue Shield of California, is expected to move into a new claims processing center in the fall of 2008 that will house its current 850-employee workforce and allow it to expand to 1,500 workers.

Municipal Government

City Council. All powers of the City **are** vested in the City Council which is empowered to perform all duties of and obligations of the City as imposed by State law. The City has a five-member City Council composed of members elected at large. Each council member is elected for four years with staggering terms.

Biographies of the members of the City Council are set forth below:

JOANNE MOUNCE, MAYOR, was elected to the Lodi City Council in November 2004. Ms. Mounce received an Accounting Certificate from South Lake Tahoe Community College and her Associates Degree with Honors from San Joaquin Delta College. With 24 years of accounting experience, Ms. Mounce currently works with Dougherty CPAs, Inc., a Stockton certified public accountant firm.

LARRY D. HANSEN, MAYOR PRO TEMPORE, was elected to the Lodi City Council in November 2002 and re-elected in November 2006. Mr. ~~Hansen~~ is a United States Navy veteran and obtained his Master of Public Administration degree in 1993 from California State University, Stanislaus. Mr. Hansen had a 30-year career with the City of Lodi Police Department, serving as Chief of Police from 1993 to 2000.

SUSAN HITCHCOCK, COUNCIL MEMBER, was elected to the Lodi City Council in November 1998 and re-elected in 2002 and 2006. Ms. Hitchcock received a Bachelor of Science in Business Administration from California State University, Sacramento, in 1979 and a teaching credential in 1991. She also received a Master of **Arts** in School Administration and an Administrative Services credential from University of the Pacific in 1997. Ms. Hitchcock worked as a commercial loan officer for eight years. She has been employed by the Lodi Unified School District since 1991 and is currently the Principal of Clairmont Elementary School.

PHIL KATZAKIAN, COUNCIL MEMBER, was elected to the Lodi City Council in November 2006. Mr. Katzakian is president and co-owner of Lodi Printing, an 84-year-old business owned by the Katzakian family since 1948. Mr. ~~Katzakian~~ attended San Joaquin Delta College and California State University, Sacramento, before being hired by Lodi Vintners, a Lodi-area winery. He spent five years with the company, eventually becoming General Manager, before leaving to open an automotive repair business. Five years later, Mr. Katzakian joined Lodi Printing.

BOB JOHNSON, COUNCIL MEMBER, was elected to the Lodi City Council in November 2004. Mr. Johnson attained the rank of captain in the United States Marine Corps and, following his military service, was employed for more than 20 years in the financial industry in a variety of marketing and management positions in New **York**, Los Angeles, and San Francisco. Most recently, he has been a self-employed real estate appraiser in the Central Valley. Mr. Johnson received a Bachelor of **Arts** degree from St. Bonaventure University.

Investment **Portfolio**

All funds of the City, including surplus funds of the System, are invested by the City in accordance with the investment guidelines of the California Government Code (Sections **53601** and **53635**) and the City's Investment Policy, which is presented annually to the City Council for approval.

Investment Policy. Pursuant to the Investment Policy, the City strives to maintain a level of investment of all idle funds, less required reserves, as near 100% as possible, through daily and projected cash flow determinations. The City's cash management system is designed to monitor and forecast expenditures and revenue accurately in order to enable the City to invest funds to the fullest extent possible.

Idle cash management and investment transactions are the responsibility of the Finance Director/City Treasurer. The Investment Policy, as adopted by the City Council on October 1, 2003, permits investment in the following: U.S. Treasury obligations (bills, notes and bonds); U.S. Government Agency securities and instrumentalities; bankers acceptances; certificates of deposit; negotiable certificates of deposit; commercial paper; California State Local Agency Investment Fund; passbook deposits; mutual funds; and medium term notes. The Investment Policy provides that safety is given the highest priority, followed by liquidity and yield. Investments are selected to achieve a "market average" rate of return, or the annual rate of return on the one-year U.S. Treasury Bill.

The Investment Policy may be changed at any **time** at the discretion of the City Council (subject to the State of California law provisions relating to authorized investments) and as the California Government Code is amended. There can be no assurance, therefore, that the State of California law and/or the Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such State law or the Investment Policy, or that the objectives of the City with respect to investments will not change. All investments, including the Authorized Investments and those authorized by law from time to time for investments by public agencies, contain a certain degree of risk. Such risks include, but are not limited to, a lower rate of return than expected and loss or delayed receipt of principal. The occurrence of these events with respect to amounts held under the Trust Agreement and the Installment Purchase Agreement, or other amounts held by the City, could have a material adverse effect on the City's finances.

Investment Results as of March 31, 2008. A summary of the City's pooled investment portfolio as of March 31, 2008 is set forth below.

**CITY OF LODI
Investment Portfolio Summary
(as of March 31, 2008)**

<u>Type of Investment</u>	<u>Amount</u>	<u>Percent of Total</u>
Local Agency Investment Fund (City)	\$41,401,507.27	77.9%
Certificates of Deposit	300,000.00	0.6
Passbook/Checking Accounts	<u>11,430,695.12</u>	<u>21.5</u>
Total	53,132,202.36	100.0

Source: City of Lodi.

Population

The following chart indicates the growth in the population of the City since 1998.

**CITY OF LODI
POPULATION
For Years 1998 through 2008**

<u>Year (as of January 1)</u>	<u>Population</u>
1998	54,800
1999	56,000
2000	56,512
2001	58,353
2002	59,835
2003	60,951
2004	61,848
2005	62,520
2006	62,828
2007	62,934
2008	63,632

Source: State of California, Department of Finance

Employment

The following table contains certain information relating to employment in the City.

CITY OF LODI EMPLOYMENT, UNEMPLOYMENT AND LABOR FORCE Averages for each of the Calendar Years 2002-2008

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008⁽¹⁾</u>
Employment	27,900	28,300	28,800	29,300	29,600	30,000	30,700
Unemployment	2,000	2,100	2,000	1,800	1,700	2,000	2,300
Civilian Labor Force	29,900	30,400	30,800	31,100	31,300	32,000	33,000
Unemployment Rate	6.6%	6.9%	6.5%	5.9%	5.5%	6.1%	7.1%
State Unemployment Rate	6.7%	6.8%	6.2%	5.4%	4.9%	5.4%	6.5%

Source: State of California, Employment Development Department.

2007 Benchmark

⁽¹⁾ Preliminary as of May 2008

Major Employers

There are several manufacturing plants in the community producing a wide variety of products: cereals, food mixes, wines, rubber products, foundry items, recreational vehicle components, electronic substrates, plastic piping and injection molded products. In addition, the City has a number of small businesses are located within the City. The main businesses in the City, however, are food processing and plastics,

The largest employers in Lodi as of June 18, 2008 are as follows:

CITY OF LODI LARGEST EMPLOYERS

Employer	Business	Number of Employees
Lodi Unified School District	Education	3,301
Lodi Memorial Hospital	Health Care	1,360
Blue Shield	Insurance Claims Processing	850
Cottage Bakery	Baked Goods	700
General Mills	Cereals and Food Mixes	418
City of Lodi	Government	450
Pacific Coast Producers	Fruit Canning	400-1,200
Farmers & Merchants Bank	Banking	336
Wal-Mart	Retail	285
Thule/Valley Towing Products	Vehicle accessory manufacturer	204
Target	Retail	165
ArmorStruxx	Laminated Goods	161
Dart Container	Food Packaging Manufacturing	140

Source: City of Lodi, City Manager's Office.

Building Permit Activity

The following table shows the value of building permits issued in the City between 2003 and 2007.

CITY OF LODI
BUILDING PERMIT VALUATION
(in thousands)
for Calendar Years 2003 through 2007

	2003	2004	2005	2006	2007
Residential Valuation					
Single Family	\$54,351	\$52,189	\$81,449	\$19,344	\$4,353
Multifamily	495	0	1,497	0	1,135
TOTAL	\$54,846	\$52,189	\$82,946	\$19,344	\$5,488
New Dwelling Units					
Single Family	274	255	371	96	22
Multiple Family	4	0	14	0	4
TOTAL	278	255	385	96	26

Source: City of Lodi, Community Development Department

Taxable Sales

The following table indicates taxable transactions in the City by type of business during the fiscal years 2002-2003 through 2006-2007.

CITY OF LODI
TAXABLE TRANSACTIONS BY TYPE OF BUSINESS
for Fiscal Years 2002-2003 through 2006-2007
(in Thousands of Dollars)

Category	2002-03 Fiscal Year	2003-2004 Fiscal Year	2004-2005 Fiscal Year	2005-2006 Fiscal Year	2006-2007 Fiscal Year
Apparel Stores	13,298	17,695	17,551	17,287	17,691
Auto Dealers/Supplies	203,666	197,817	201,348	214,248	198,619
Building Materials	47,942	52,791	75,408	101,804	78,313
Drug Stores	16,105	15,165	14,088	14,076	14,419
Eating/Drinking Places	65,130	66,933	72,659	80,615	85,190
Food Stores	38,095	41,647	40,467	45,291	42,282
Furniture/Appliances	26,907	27,503	27,797	29,866	28,545
General Merchandise	130,608	132,491	129,136	130,739	129,181
Other Retail Stores	44,552	45,558	48,411	51,280	55,137
Packaged Liquor	9,132	10,321	12,729	12,799	12,911
Service Stations	55,769	55,177	64,663	73,422	80,837
Total Retail Outlets	651,204	663,099	704,257	771,427	743,126
All Other Outlets	117,237	115,104	129,776	139,768	162,952
Total Sales All Outlets	768,442	778,203	834,033	911,195	906,078

Source: California State Board of Equalization

Income

The following table, based on data reported in the annual publication "Survey of Buying Power" published by Sales and Marketing Management, summarizes the total EBI and the median household EBI for the City, the County, the State and the nation for the years **2002** through **2006**.

TOTAL EFFECTIVE BUYING INCOME (in Thousands)

Year	City of Lodi	County of San Joaquin	State of California	United States
2002	922,890	8,665,983	647,879,427	5,340,682,818
2003	965,963	9,269,688	674,721,020	5,466,880,008
2004	992,463	9,757,778	705,108,410	5,692,909,567
2005	1,026,645	10,360,775	720,798,106	5,894,663,364
2006	1,081,415	11,235,220	764,120,963	6,107,092,244

Source: Sales & Marketing Management Survey of Buying Power for 2002 through 2004;
Claritas Demographics for 2005 & 2006.

The following table compares the median household effective buying income for the City, the County, the State and the nation.

MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME

Year	City of Lodi	County of San Joaquin	State of California	United States
2002	35,315	37,577	42,484	38,035
2003	35,577	37,988	42,924	38,201
2004	36,529	39,040	43,915	39,324
2005	37,288	39,956	44,681	40,529
2006	38,540	41,693	46,275	41,255

Source: Sales & Marketing Management Survey of Buying Power for 2002 through 2004;
Claritas Demographics for 2005 & 2006.

Agriculture

Lodi is a worldwide agricultural shipping center for the San Joaquin Valley. The surrounding prime agricultural land is the nation's largest producer of premium wine grapes. Lodi businesses process and ship local produce ranging from grapes to cherries and asparagus.

Community Facilities

The City has a central library, one community center, **22** parks and five specific use facilities, covering **275** developed acres and **97** undeveloped acres, and **17** playgrounds. Lodi Lake Park is connected to the Mokelumne River and features boating, fishing, beach swimming, boat rentals, nature walks, group picnic sites, an RV park and the Discovery Nature Center. Micke Grove Park, a San Joaquin County park, is located between Lodi and Stockton. The park is home to a Japanese

garden, the San Joaquin Historical Museum, rides, picnic areas and a five-acre zoo featuring mammals, birds, reptiles and invertebrates.

Community recreation programs cover a wide range of interests and activities including youth and adult sports and special interest classes, youth-at-risk programs, aquatics, special events, camps/clinics and tournaments.

Lodi Memorial Hospital offers a 181-bed, nonprofit, independent, acute-care hospital to the residents of the City and surrounding community. Its mission is to provide quality medical care, education and support services to the community. Two hospital campuses and six satellite clinics are used to provide a variety of inpatient, outpatient, urgent, emergency and primary care services. The hospital broke ground in 2007 on a \$200 million expansion and upgrade plan that will result in remodeled rooms and the addition of an SO-bed wing.

Education

The Lodi Unified School District provides **K-12** and special education programs. The area also is served by several private and parochial schools. The University of the Pacific, San Joaquin Delta College, California State University, Stanislaus-Stockton campus, and the University of San Francisco satellite center are all within a 20-minute drive of the city. The University of California, Davis and California State University, Sacramento, and the University of Southern California satellite center are within an hour's drive of the City. Additionally, San Joaquin Delta College is developing plans to build a satellite learning center that would be annexed into the city. The plans include a housing development.

Transportation

The City is served by Interstate 5 and State Highways 12 and 99 and is located on the main line of the Union Pacific Railroad. Lodi has Amtrak passenger rail service and local, regional and national bus service. A deep-water seaport and airport with commercial passenger travel are located approximately 15 miles south in Stockton.

Estimated Direct and Overlapping Bonded Debt

The estimated direct and overlapping bonded debt of the City as of June 26, 2008 is set forth below.

CITY OF LODI ESTIMATED DIRECT AND OVERLAPPING BONDED DEBT as of June 26, 2008

CITY OF LODI

2007-08 Assessed Valuation: \$5,159,270,328

<u>OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>% Applicable</u>	<u>Debt 6/24/08</u>
San Joaquin Community College District	8.116%	\$ 6,507,093
Lodi Unified School District	34.936	36,515,107
City of Lodi 1915 Act Bonds (Estimated)	100.	<u>595,000</u>
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		\$43,617,200
 <u>DIRECT AND OVERLAPPING GENERAL FUND DEBT</u>		
San Joaquin County Certificates of Participation	8.922%	\$18,512,704
Lodi Unified School District Certificates of Participation	34.936	17,118,640
City of Lodi Certificates of Participation	100.	<u>23,420,000</u> (1)
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$59,051,344
 COMBINED TOTAL DEBT		 \$102,668,544 (2)

(1) Excludes electric revenue certificates of participation to be sold.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to Assessed Valuation:

Combined Direct Debt (\$23,420,000).....0.45%
Total Overlapping Tax and Assessment Debt.....0.85%
Combined Total Debt..... 1.76%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$263

Source: California Municipal Statistics, Inc.

Assessed Valuation and Tax Collections

Taxes are levied for each fiscal Year on taxable real and personal property that is situated in the City as of the preceding March 1. For assessment and collection purposes, property is classified either as “secured” or “unsecured” and is listed accordingly on separate parts of the assessment roll. The “secured roll” is that part of the assessment roll containing State-assessed property and real property having a tax lien that is sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the “unsecured roll.”

Property taxes on the secured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31. A 10% penalty attaches to the delinquent taxes on property of the unsecured roll, and an additional penalty of 1.5% per month begins to accrue commencing on November 1 of the Fiscal year. Collections of delinquent unsecured taxes is the responsibility of the County of San Joaquin using the several means legally available to it.

CITY OF LODI ASSESSED VALUATIONS For Fiscal Years 2002 through 2007 (In thousands)

Fiscal Year	Land	Improvements	Personal Property	Total	Less Exemptions	Net Assessed Value
2001-2002	889,262	2,164,121	245,611	3,298,994	190,252	3,108,742
2002-2003	960,166	2,366,887	265,339	3,592,392	200,957	3,391,435
2003-2004	1,027,462	2,549,860	248,472	3,825,794	212,102	3,613,692
2004-2005	1,107,776	2,739,061	249,812	4,096,649	217,077	3,879,572
2005-2006	1,226,293	2,989,575	258,035	4,473,903	220,590	4,253,313
2006-2007	1,431,203	3,327,453	285,340	5,043,996	229,049	4,814,947

Source City of Lodi audited financial statements

In 1993, the City made an agreement with San Joaquin County to participate the Teeter Plan pursuant to provisions of Sections 4701-4717 of the California Revenue and Taxation Code. The Teeter Plan is an alternative method of apportioning property tax money. Pursuant to those sections the **accounts of all political subdivisions that levy taxes on the County tax rolls** are credited with 100% of their respective tax levies regardless of actual payments and delinquencies. The cities covered under *the* plan receive 95% of the property taxes in advance from **the County** and **the** 5% remaining after reconciling the cities’ balances at June 30. **As** part of the agreement, the county keeps the penalties and interest on the delinquent taxes.

Ten Largest Locally Secured Taxpayers

The following table **shows** the ten largest locally secured taxpayers **of** the City for the Fiscal year ended June 30,2007.

CITY OF LODI
TEN LARGEST LOCALLY SECURED TAXPAYERS
Fiscal Year Ended June 30,2007

	<u>Name</u>	<u>Assessed Valuation</u>
1.	General Mills, Inc.	145,809,000
2.	Pacific Coast Producers	341451,000
3.	Pacific Coast Producers Corp.	27,719,000
4.	Cottage Bakery Inc.	24,966,000
5.	Kristmont West	21,961,000
6.	CertainTeed Corp.	19,455,000
7.	Parinehs Exchange 2004 LLC	19,318,000
8.	Dart Container Corp.	17,980,000
9.	Carl D. Panattoni, et al	13,243,000
10.	Ford Construction	13,031,000
	TOTAL	<u>\$337,933,000</u>

Source: **San Joaquin County Assessor's Office.**

APPENDIX B

COMPREHENSIVE ANNUAL FINANCIAL REPORT OF THE CITY
FOR THE
FISCAL YEAR ENDED JUNE 30,2007

APPENDM C

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC and neither the City nor the Underwriters take any responsibility for the completeness or accuracy thereof: The City cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants (each as defined herein) will distribute to the Beneficial Owner (as defined herein) (a) payments of interest, principal or premium, if any, with respect to the 2008 Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the 2008 Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the 2008 Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("**DTC**") New York, **NY**, will act as securities depository for the 2008 Certificates. The 2008 Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be issued for each maturity and series of the 2008 Certificates, each in the aggregate principal amount of such maturity and series, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, All of which are registered clearing agencies. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com And www.dtc.org.

Purchases of the 2008 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2008 Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on

the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2008 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the 2008 Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2008 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2008 Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the 2008 Certificates may wish to take certain steps to augment transmission to them of notices of significant events with respect to the 2008 Certificates, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the 2008 Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2008 Certificates within a **maturity** are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the 2008 Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2008 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest on the 2008 Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Trustee on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions,

and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the **2008** Certificates at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is *not* obtained, Security certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

THE TRUSTEE, AS LONG AS A BOOK-ENTRY ONLY SYSTEM IS USED FOR THE 2008 CERTIFICATES, WILL SEND ANY NOTICE OF PREPAYMENT OR OTHER NOTICES TO OWNERS ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER, OF ANY NOTICE AND ITS CONTENT OR EFFECT WILL NOT AFFECT THE VALIDITY OF SUFFICIENCY OF ~~THE~~ PROCEEDINGS RELATING TO THE PREPAYMENT OF THE 2008 CERTIFICATES CALLED FOR PREPAYMENT OR OF ANY OTHER ACTION PREMISED ON SUCH NOTICE.

APPENDIX D
SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this “Disclosure Agreement”) is executed and delivered by the City of Lodi (the “City”) and The Bank of New York Trust Company, N.A., in its capacity as dissemination agent (the “Dissemination Agent”) in connection with the issuance of Electric System Revenue Certificates of Participation, 2008 Series A (the “2008 Certificates”). The 2008 Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of July 1, 2008 (the “Trust Agreement”), by and between the City, the Corporation and The Bank of New York Trust Company, N.A., as trustee thereunder (the “Trustee”). The City and the Dissemination Agent covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the City and the Dissemination Agent for the benefit of the Owners and Beneficial Owners of the 2008 Certificates and in order to assist the Participating Underwriters in complying with the Rule (defined below).

SECTION 2. Definitions. In addition to the definitions set forth in the Trust Agreement, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Beneficial Owner” shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning the ownership of any 2008 Certificates (including persons holding 2008 Certificates through nominees, depositories or other intermediaries).

“Disclosure Representative” shall mean the City Manager of the City or his or her designee, or such other person as the City shall designate in writing to the Trustee from time to time.

“Dissemination Agent” shall mean The Bank of New York Trust Company, N.A. or any successor Dissemination Agent designated in writing by the City which has filed with the Trustee a written acceptance of such designation.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“National Repository” shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule.

“Official Statement” shall mean the Official Statement relating to the 2008 Certificates.

“Participating Underwriter” shall mean any of the original underwriters of the 2008 Certificates required to comply with the Rule in connection with offering of the 2008 certificates.

“Repository” shall mean each National Repository and the State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California

“State Repository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Agreement, there is no State Repository.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than 270 days after the end of the City’s fiscal year (which fiscal year presently ends June 30), commencing with the report for the 2007-08 fiscal year, provide to each Repository and the Dissemination Agent an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. If by such date the Trustee has not received a copy of the Annual Report, the Dissemination Agent shall contact the City and the Trustee to inquire if the City is in compliance with the first sentence of this subsection (a). Neither the Dissemination Agent nor the Trustee shall have any duty or obligation to review such Annual Report. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the City’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen **(15)** Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repositories, the City shall provide the Annual Report to the Dissemination Agent (if other than the City or an employee of the City).

(c) If the Dissemination Agent is unable to verify that an Annual Report has been provided to the Repositories by the date required in subsection (a), the Dissemination Agent shall send a notice to each Repository and the Municipal Securities Rulemaking Board in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the **Annual** Report the name and address **of** each National Repository and the State Repository, if **any**; and

(ii) file a report with the City (if the Dissemination Agent is not the **City**) and the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided, and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The City’s Annual Report shall contain or include by reference the following:

(a) The audited financial statements of the City of Lodi (including the Electric Revenue Fund) for the prior fiscal year, prepared in accordance with generally accepted accounting principles as promulgated from time to time by the Governmental Accounting Standards Board or as otherwise required by applicable State law. If the City’s audited financial statements are not available by the

time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained (or incorporated by reference) in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) **An** update of the information contained in Table 1 of the Official Statement for the most recently completed fiscal year.

(c) **An** update of the information contained in Table 4 of the Official Statement for the most recently completed fiscal year.

(d) **An** update of the information contained in Table 5 of the Official Statement for the most recently completed fiscal year.

(e) **An** update of the information contained in Table 6 of the Official Statement for the most recently completed fiscal year; provided, however, that projections need not be updated.

SECTION 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2008 Certificates, if material;

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events affecting the tax-exempt status of the 2008 Certificates;
8. unscheduled draws on debt service reserves reflecting financial difficulties.
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform;
11. release, substitution or sale of property securing repayment of the 2008 Certificates.

(b) The Dissemination Agent (if other than the City) shall, as soon as reasonably practicable after obtaining actual knowledge of the occurrence of any of the Listed Events contact the Disclosure Representative, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to Section 5(f) and

promptly direct the Dissemination Agent whether or not to report such event to the Bondholders. In the absence of such direction, the Dissemination Agent shall not report such event unless otherwise required to be reported by the Dissemination Agent to the Bondholders under the Trust Agreement. The Dissemination Agent may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, “actual knowledge” of the occurrence of such Listed Events shall mean actual knowledge by the Dissemination Agent if other than the Trustee, and if the Dissemination Agent is the Trustee, then by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Trust Agreement. The Dissemination Agent shall have no responsibility to determine the materiality of any of the Listed Events.

Whenever the City obtains knowledge of the occurrence of a Listed Event, because of a notice from the Dissemination Agent pursuant to Section 5(b) or otherwise, the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the City shall promptly notify the Dissemination Agent (if other than the City) in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to Section 5(1).

(d) If in response to a request under Section 5(b), the City determines that the Listed Event would not be material under applicable federal securities laws, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent (if other than the City) not to report the occurrence pursuant to Section 5(f).

(e) If the Dissemination Agent is not the City and has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Municipal Securities Rulemaking Board and the Repositories with a copy to the City. Notwithstanding the foregoing, notice of Listed Events described in Sections 5(a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to the Owners of affected 2008 Certificates pursuant to the Trust Agreement.

SECTION 6. Termination of Reporting Obligation. The City’s obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the 2008 Certificates. If the City’s obligations under the Installment Purchase Agreement are assumed in full by some other entity, such person shall be responsible for compliance with this Disclosure Agreement in the same manner as if it were the City and the original City shall have no further responsibility hereunder. If such termination occurs prior to the final maturity of the 2008 Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Agreement.

SECTION 8. Amendment: Waiver. Notwithstanding any other provision of this Disclosure Agreement, the City and the Trustee may amend this Disclosure Agreement (and the Trustee shall

agree to any amendment so requested by the City, provided, the Trustee shall not be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder) and any provision of this Disclosure Agreement may be waived, provided that the following conditions **are** satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, *or* change in the identity, nature or status of an obligated person with respect to the 2008 Certificates, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the 2008 Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment *or* waiver either (1) is approved by the Owners of the 2008 Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of Owners, or (ii) does not, in the opinion of the Trustee or nationally recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners of the 2008 Certificates.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (1) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any **other** information in any Annual Report *or* notice of occurrence of a Listed Event, in addition to that which is required by **this** Disclosure Agreement. if the City chooses to include. any information in any Annual Report or notice of occurrence of a Listed Event, in addition **to** that which is specifically required by this Disclosure Agreement, the City shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. The City may satisfy its obligations hereunder to file any notice, document or information with a National Repository or State Repository by filing the same with any agent which is responsible for accepting notices, documents or information for transmission to such National Repository or State Repository, to the extent permitted by the Securities and Exchange Commission or Securities and Exchange Commission staff (a "Central Post Office"). For this purpose, permission shall be deemed to have been granted by the Securities and Exchange Commission staff if and to the extent the Central Post Office has received an interpretive letter, which has not been revoked, from the Securities and Exchange Commission staff to the effect that using the Central Post Office to transmit information to the National Repositories and the State Repositories will be treated for purposes of the Rule as if such information were transmitted directly to the National Repositories and the State Repositories.

SECTION 11. Default. In the event of a failure of the City or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of any Participating Underwriter, or the Owners of at least 25% in aggregate principal amount of Outstanding 2008 Certificates, shall), or any Owner or Beneficial Owner of the 2008 Certificates may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the City or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Trust Agreement or the Installment Purchase Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the City or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 12. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Article VIII of the Trust Agreement is hereby made applicable to **this** Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Trust Agreement and the Trustee shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The **Dissemination Agent** shall have no duty or obligation to review any information provided to it hereunder **and** shall not be deemed to be **acting** in any fiduciary capacity for the City, **the** Bondholders or any other party. The Dissemination Agent shall not have any liability to the Bondholders or any other party for any monetary damages or financial liability of any kind whatsoever related to or arising from this Disclosure Agreement. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the 2008 Certificates.

SECTION 13. Notices. Any notices or communications to or among any of the parties related to this Disclosure Agreement may be given as follows:

To the City: City of Lodi
221 West Pine Street
Lodi, California 95241-1910
Attention: City Manager

To the Dissemination Agent or the Trustee:

BNY Western Trust Company
550 Keamy St., Suite 600
San Francisco, California 94108
Attention: Corporate Trust Administration

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 14. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the City, the Trustee, the Dissemination Agent, the Participating Underwriters, and Owners and Beneficial Owners from time to time of the 2008 Certificates, and shall create no rights in **any** other person or entity.

SECTION 15. Counterparts. This Disclosure Agreement **may** be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated: July 24,2008

CITY OF LODI

By:_____

City Manager

U.S. BANK NATIONAL ASSOCIATION,
as Dissemination Agent

By:_____

Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE *ANNUAL* REPORT

Name **of** Issuer: City of Lodi, California
Name of Bond Issue: Electric System Revenue Certificates of Participation, 2008 Series A
Name of Obligated Person: City of Lodi
Date **of** Issuance: July 24, 2008

NOTICE IS HEREBY GIVEN that the City of Lodi has not provided an Annual Report with respect *to* the above-named 2008 Certificates as required by the Continuing Disclosure Agreement, dated as **of** July 1, 2008, between the City and The Bank of New **York** Trust Company, **N.A.**, in its capacity as dissemination agent (the "Dissemination Agent"). The City anticipates that the Annual Report will be filed by _____

Dated: _____

CITY. OF LODI

By: _____

